ABSTRACT

Grandison, Coy L.

B.S., University of Wisconsin, Platteville, U.S.

M.A. Ohio State University, Columbus, U.S.

The International Monetary Fund,
A Strategy For Development: A Case Study of Jamaica

Advisor: Professor Robert A. Holmes
Dissertation May 1985

The International Monetary Fund was initially formed to maintain world monetary stability among the world's developed countries.

Jamaica is one of the many developing countries that has accepted IMF terms because of its increasing monetary problems. This research analyzes the relationship between the IMF and Jamaica. To this end, the history of the IMF and its operations will be examined along with the Jamaican economic and political development, including a detailed study of the Manley years and the IMF. A questionnaire was administered to get the pulse of Jamaican leaders and their understanding of the IMF.

By 1976, Manley's government needed help and applied for an IMF loan. On examining the IMF, one finds that its articles of agreement are not conducive for third world development, nor has it been successful in the developed

countries. The IMF is heavily influenced by the United States both by its contributions (30% in 1940's and 20% in the 70s and 80s,) and its leadership of the Western world. The Group of Ten led by the U.S., controls over 60% of the Fund total. This Group consists of the United States, Britain, West Germany, France, Japan, Italy, Canada, The Netherlands, Belgium and Sweden.

In Jamaica's case, the U.S. undermined the Manley government by hostile propaganda about crime and her relationship with Cuba. Loans from the U.S. dried up almost completely in 1976 and the tourist trade slowed to a trickle. The Carter government was not as hostile, but as a condition for improved relations, Jamaica had to agree to IMF conditions.

The government's stress on public sector expansion rather than the private sector activity favoured by the IMF laid the foundation for disagreements between the two. After the failure of the first IMF test, the conditions of the loan became even more stringent. Ultimately, the Manley government broke off its IMF agreement.

The ensuing elections saw a vast swing and the opposition won by a majority of 51 to nine. The U.S. government and the IMF were immediately brought in and loans that were not forthcoming for the Manley government were made available promptly, indicating that the U.S. and the IMF were instrumental in dictating what happened in Jamaica.

THE INTERNATIONAL MONETARY FUND,

A STRATEGY FOR DEVELOPMENT: A CASE STUDY OF JAMAICA

A DISSERTATION

SUBMITTED TO THE FACULTY OF ATLANTA UNIVERSITY

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR

THE DEGREE OF DOCTOR OF PHILOSOPHY

BY

COY L. GRANDISON

ATLANTA, GEORGIA

JULY 1985

This paper is dedicated to the loving memory
of my sister

Beverly
3/28/48 - 12/9/83

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER I

INTRODUCTION

The International Monetary Fund (IMF) was formed in 1944 to stabilize the economies of member countries. At its inception, its membership was composed primarily of European and North and South American countries. In the last twenty years the membership has tripled and the developing countries are now a majority.[1] The less developed countries (LDCs) have become increasingly disenchanted with the operation of the IMF because their situation since the 1960s has grown steadily worse under IMF conditions.[2] The IMF was formed essentially to expand international trade, increase employment, promote exchange stability, and develop a system of multilateral transactions between members.[3]

Now that the membership has changed, one has to question its fundamental strategy of emphasizing short-term balance of payment adjustments as compared to the more pertinent long-term requirements favoured by the developing countries. The former was more appropriate to the developed

---

[1] IMF Report, 1982, p. 134.

[2] Guy F. Erb and Valeriana Kallab, (eds.) Beyond Depenency: The Developing World Speaks Out (New York: Praeger, 1975), pp. 193-194.

[3] Appendix A, Article 1.

countries' needs and met with an element of success in revitalizing the war-torn economies of Europe and Japan. Those societies had the necessary and sufficient conditions to implement IMF short-term policies. Their infrastructures were already established; the war had merely damaged them.[4] The developing countries in contrast, by and large, have poorly developed infrastructures.

The world economic system had been in disarray since World War I. British dominance in world trade and the gold standard functioned well from 1870 to 1914. The First World War caused a breakdown of that system. During the 1920s the attempt to return to a gold standard failed. The 1930s saw a period of fluctuating exchange rates and the use of pounds, dollars, and francs to back gold, but these efforts failed.[5]

The major developed countries met at Bretton Woods, New Hampshire to work out an international agreement dealing with trade balances, exchange control, and fiscal policy. Two plans were in contention: The Keynes Plan and The White Plan. The former stressed the need for exports and

---

[4]Benjamin H. Beckhart, Federal Reserve System, suggests many nations first joined the IMF in order to be able to borrow from the International Bank for Reconstruction and Development inasmuch as membership is a prerequisite to membership in the World Bank. As Governor Rooth (IMF) pointed out in a memorandum, many nations, at the time they joined the Fund, were actually insolvent and should not have been admitted to membership. (New York: Columbia University Press, 1972), p. 428.

[5]Franklin Root, International Trade and Investment (New York: Southwestern Publishing Co., 1978), p. 164.

expansion of the economy and the latter focused on stabilizing exchange rates. The White Plan was adopted.

The White Plan had to take into consideration the mood of the American Congress and the public. They lacked experience in leadership and participation in important world organizations. The isolationist mind-set was influenced by the need to protect United States industries which had prospered during WWII. The White Plan was limited to the setting up of exchange rates to ensure an orderly and stable world exchange of the major currencies. It did not address the need for development or trade; it merely wanted the "status quo" to remain and for countries to trade on the given parities that were worked out.[6]

The Keynes Plan essentially expressed the need for an International Clearing Union, with its corresponding currency, "bancor." The main feature of the plan was that international trade would be no more than historical bartering supplemented by the currency system for transactions. The principal benefit of the system would be equilibrium between trading partners. There would be penalties for prolonged deficits as well as surpluses; over time, countries would be trading equal amounts with each other and neither an extended deficit nor surplus would be allowed in such an arrangement.[7]

---

[6]Fred Block, The Origins of International Economic Disorder (Los Angeles: University of California Press, 1977), pp. 42-66.

[7]Ibid., p. 66.

The IMF, from its inception, had problems of too much influence by America, Britain, and Canada (ABC). Over the years, the Group of Ten, led by the United States, has dominated the organization.[8] The United States in 1946 loaned Britain a substantial sum of money outside of the auspices of the IMF in return for trading areas. This had the effect of undermining the multilateral transactions that the IMF was founded to perform. Thus, the precedent was set for bilateral arrangements between friendly developed countries operating outside the IMF, indicating that the old system among developed countries was the order of the day.[9] Not that bilateral arrangements would be outlawed, but for the IMF to be functional, a better initial example by the two major powers was needed.

Concurrently, the U.S. dollar became the dominant monetary force because of the weakened economies of Europe and Japan. The United States started to rebuild and lend monies to these depressed economies. The United States dollar, therefore, became the major world currency. It had become so powerful that the U.S. was able to insist that the dollar be backed by gold at thirty-five dollars an ounce. This and the dollar as major currency laid the foundation for the international monetary crisis.[10]

---

[8]Ibid., p. 48

[9]Ibid., p. 52.

[10]Robert Trifflin, Gold and the Dollar Crisis: The Future of Convertibility (New Haven, Connecticut: Yale Press, 1960), pp. 2-3.

The recovery of the European and Japanese economies adversely affected United States supremacy in industrial production. The early American deficits of the later '50s and '60s became chronic by the mid-60s. The recovered economies of Europe and Japan were not willing to revalue their currencies because in so doing they would lose their trade advantage. So the American deficit that was caused by its military expenditure, policing the world, and the giving of aid to counter the communist threat became a chronic deficit.[11] The United States responded to the situation by printing more dollars and floating the U.S. dollar in the international market.

The other developed countries became concerned about accepting U.S. dollars; they were, in effect, supporting its deficit spending.[12] France, under De Gaulle in 1966, made the first real objections to that policy by demanding gold for the United States dollar, a proposition that was realistic, but which the United States thought preposterous and ungrateful of the French. From that point on, everyone questioned the strength of the United States' economy and the dollar. That doubt culminated in a 1971 dollar crisis when the United States broke away from gold backing the dollar at thirty-five dollars an ounce.

The IMF was adversely affected by these developments.

---

[11] Ibid., p. 4.

[12] Fred Block, p. 54.

The U.S. dollar had taken over the role the IMF should have played. (Loans were given bilaterally to the other industrial countries rather than under the auspices of the IMF.) The General Agreement of Trade and Tarriffs (GATT) was activated to relieve the pressure.[13] It made some gains for the industrial countries, but the Third World was not included.

In addition, the membership of the IMF was changing; its initial forty-four members grew to one hundred forty-six by 1982. The majority of new members were small, dependent states that were relying on the generosity of European and North American developed countries. The IMF goals and principles were not directed at these states and any adjustments to aid them have been miniscule. The problem was compounded by those small states demanding true independence and an end to their dependence on the North. The first real protest of the LDCs came at the Afro-Asian Conference at Bandung in 1955 followed by the non-aligned nations meetings in Belgrade in 1961, Cairo in 1964, Lusaka in 1970, and Algiers in 1973. The first major breakthrough was the United Nations Conference on Trade and Development (UNCTAD) in 1964.[14] It

---

[13] Secretary of State Hull had proposed an International Trade Organization (ITO) to solve the world's problem. But the IMF concept won over the (ITO). However it was felt that there should be a systematic international trading body in the GATT. It functions to provide guidelines regarding international trade and tariff restrictions.

[14] Diego Cordovez, "The Making of UNCTAD: Institutional Background and Legislative History," Journal of World Trade Law (May-June, 1967), pp. 253-254.

was limited because it was directly influenced by the major powers in the United Nations. A more radical Third World response was the formation of the Group of 77 which culminated in the 1974 demand for a New International Economic Order. Some of the demands of the Third World were: (1) the establishment of a common fund which would finance international commodity stocks; (2) the setting up of international stock for several commodities; (3) the improvement and enlargement of facilities for compensatory financing, which would help to offset fluctuations in the export earnings of developed countries; (4) multilateral trade commitments on individual commodities; (5) the removal of trade barriers and other impediments to the expansion of commodity processing capacity in developing countries.[15]

Another area of concern for developing countries was the problem of debt repayment and they proposed: (a) cancellation of debts owed by the twenty-nine least developed countries; (b) postponement until 1980 of interest payments and capital payments of loans owed by the most seriously affected countries; (c) rescheduling of short-term commercial debt into long-term obligations of twenty-five years; (d) refinancing of debts owed to international institutions like the IMF; (e) convening of an international

---

[15]Joan E. Spero, The Politics of International Economic Relations (New York: St. Martin's Press, 1981), p. 189.

debtor-creditor conference to discuss the entire problem.[16] All of these concerns fell on deaf ears; subsequently there was a world debt crisis which worsened (See Table 1.1):

> At stake is a gargantuan debt, a $706 billion lien held by banks, governments and international financial institutions around the world against a group of deeply troubled developing and East bloc countries.[17]

---

[16] C. Fred Bergsten, "The Threat from the Third World," Foreign Policy (Summer 1973), pp. 102-104.

[17] Charles Alexander, "Bracing for a Showdown," Time (January 10, 1983), p. 42.

Table 1.1

THE INTERNATIONAL DEBT CRISES AS OF MAY 1983
The Major Third-World Trouble Spots

NATION	DEBT* (in billions of dollars)	Status
Mexico	$80-90	3-year, $3.7 billion IMF loan approved Jan. 1. Also received $5 billion from banks and rollover of 1983-84 principal of public debt. Current in payments on public debt; beginning to pay private sector interest. Some bankers expect Mexico to need more money later this year, but officials disagree.
Brazil	$80-90	$4.6 billion, 3-year IMF loan approved March 1, but now seeks "flexibility" on conditions. Negotiated package with banks that is breaking down as banks fail to provide all cash promised. Acute liquidity squeeze causes substantial arrears and new push on banks to provide another $3 billion. May seek help from U.S. and other governments.
Argentina	$35-40	$1.6 billion, 15-month IMF loan approved 3rd Jan. 24; reportedly in compliance with terms. Negotiating new $1.5 billion medium-term loan with banks; wants to roll over about $11 billion of debts due this year or overdue from 1982.
Venezuela	$25-35	Has postponed payment through July 1 on about $9 billion of debt due in 1982; trying to negotiate longer-term stretch-out with banks. Bankers want nation to go to IMF for loan and agree to austerity measures, but with election in December, officials resisting.

Table 1.1 (Continued)

NATION	DEBT* (in billions of dollars)	Status
Chile	$15-20	2-year IMF loan approved Jan. 10, but out of compliance with terms and didn't get March 31 installment. On "shadow" IMF program aiming to reach compliance. Negotiating rollover of 1983-84 public debt plus $1.3 billion in new funds.
Peru	$12	In midst of 3-year IMF program and in compliance. Negotiating new $450 million loan from banks; negotiating through Paris Club for stretch-out of debt to other governments.
Nigeria	$15	Like Venezuela, hurt by lower oil prices. Unwilling to go to IMF, but very early talks under way. In substantial arrears on trade and suppliers credit; talking with banks about stretch-out of short-term debt, estimates of which vary widely. Current on long-term debt.
Poland	$25	Has worst prospects of regaining solvency. Reportedly asked banks to stretch out over 20 years its 1983-85 debt. Talks in Paris Club over official debt stalled because of U.S. opposition.
Yugoslavia	$15-20	In last year of 3-year IMF loan; forced to tighten program to cope with reduced bank financing after Polish crisis. In drawn-out talks with IMF, governments, and banks about 1983 financing. Sources say these close to successful conclusion.

Table 1.1 (Continued)

NATION	DEBT* (in billions of dollars)	Status
Romania	$8-10	Case similar to Yugoslavia's. Signed 3-year loan in June 1981, had to change terms to cope with reduced bank financing. Banks and suppliers stretched out 1982 debt; talks under way on 1983; also seeks new bank loans.
Hungary	$7-9	Also hurt by Polish crisis. 13-month IMF loan approved last December; talking with banks for small new loan this year.

SOURCE: The Washington Post, May 15, 1983, p. F 1.

*Debt totals are estimates; bankers caution that actual amounts may vary by 10 percent or more.

Jamaica was one of the vanguard countries in demanding the NIEO, not because her politics were revolutionary, but because she could easily become one of the desperate, downtrodden and further undeveloped countries. Her historical dependency on Great Britain, and lately the United States, showed no marked improvement in her development; this trend highlighted that Jamaica is a country with limited mineral resources, a growing population accompanied by a low level of education, high unemployment and poverty, and increasing inequality.

The Jamaican government, led by Michael Manley's People's National Party (PNP), sought to stop that trend and to redress these ills. Greater control over the most substantive natural resource (its population) was advocated; the educational system was geared for free education from birth to university level; the public works sector began employing a great number of previously-unemployed people; sugar cane lands were turned into cooperatives and there was a general desire to lessen the inequities in the society. The government (PNP) lists as its achievements: (a) increased social justice; (b) pursuit of economic independence within a New International Economic Order; (c) more democracy for the people; (d) more rights for the workers.[18]

---

[18] Political Education Programme, Canvasser's Training 1979/80, part I, p. 5.

TABLE 1.2

The PNP List of Achievements

Land Lease Minimum wage Maternity leave Advances for women Advances for children Jamaica Adult Literacy More school places More youth programmes	Social Justice
Bauxite levy Economic cooperation with other Third World Countries A Fairer deal for Third World countries in the international capitalist system	Economic Independence, higher productivity, and a New International Economic order
Community Councils Lowering the voting age to 18 years School councils Community Enterprise Organization Co-operatives Worker participation	Democracy for the people
Trade union advances through labor legislation, e.g., law to compel employers to recognize and negotiate with the union of the workers' choice; law to compel employers to reinstate wrongfully dismissed workers; law to guarantee notice and severence pay to innocent workers who have lost their jobs; law to make money owed to workers a priority claim on employers who are closing down.[18]	The rights of workers

[18] Ibid., p. 9.

In 1974, the Jamaican government adopted a non-aligned foreign policy. This included closer ties with Cuba and the visits of revolutionary leaders, Samora Machel of Mozambique, Mr. Lopo de Nascimento (Neto) of Angola, and Julius Nyerere of Tanzania. The government had developed a strategy for getting help from any source. Lines of credit and loans poured in from the British, South Koreans, French, Venezuelans, Trinidadians, Canadians, Norwegians, and several others. At the same time relations with the United States were deteriorating. In July 1973 Prime Minister Michael Manley declared U.S. Ambassador Vincent W. de Roulet as "personna non grata." (See Chapter IV). Poor relations with the U.S. were further exacerbated by Jamaican support for Cuban intervention in Angola in 1974 and by subsequent allegations of U.S. involvement in "destabilization activities in Jamaica similar to those that had led to the ouster of the Allende regime in Chile."[20]

The 1976 elections were won by an increased majority from thirty-five to eighteen to forty-seven to thirteen giving the government of Prime Minister Michael Manley a mandate for its democratic socialist policies.

The balance of payments problem, in the meanwhile, had become chronic (see Table 1.3).

---

[20]U.S. Information Report on Jamaica (January 1983), p. 149.

TABLE 1.3

JAMAICA - BALANCE OF PAYMENTS, 1970-1981
(U.S. $ million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981[a/]
Exports (FOB)	342	371	374	399	605	760	630	724	792	815	961	990
Imports (CIF)	522	553	587	677	936	1,123	913	747	857	994	1,161	1,440
(of which oil)	(33)	(52)	(56)	(73)	(195)	(215)	(204)	(235)	(194)	(331)	(451)	(450)
Trade Balance	-180	-182	-213	-278	-331	-363	-283	-23	-65	-179	-200	-420
Non-factor Services, net	96	110	124	113	110	97	-55	85	128	159	193	225
(of which tourism)	(80)	(93)	(110)	(100)	(97)	(76)	(47)	(93)	(130)	(185)	(230)	(255)
Investment Income, net	-98	-103	-121	-58	21	-52	-112	-129	-179	-203	-293	300
Transfers, net	22	21	27	27	24	26	6	20	26	80	91	115
Current Account	-160	-154	-183	-196	-176	-292	-334	47	-90	-143	-298	-410
Direct Foreign Investment	161	175	94	75	23	-2	-1	-7	-27	-26	-11.0	8.0

Table 1.3 (Continued)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981[a]
Public Capital, net	9	23	37	137	173	179	86	26	103	76	128	277
(Disbursements)	(15)	(33)	(54)	(157	(203)	(210)	(143)	(116)	(224)	(178)	(195)	(454)
(Amortizations)	(6)	(10)	(17)	(20)	(30)	(31)	(57)	(90)	(121)	(102)	(66)	(177)
Other Capital[b]	5	-23	23	46	50	34	35	-32	-125	-59	7.0	40
SDR Allocations	6	5	4	-	-	-	-	-	-	10	10	10
Capital Account	181	180	159	166	246	211	120	-14	-48	1	134	335
Change in Reserves (- increase)	-21	-26	25	30	-70	81	214	60	139	142	75	75
(Of which Change in arrears)	-	-	-	-	-	-	-	(27)	(36)	(-8)	(58)	(-57)

a/ Preliminary.
b/ Includes errors and omissions.

Source: Bank of Jamaica, IMF and IBRD Estimates.

The wage gains and lack of foreign capital saw the first real significant drop in the gross national product in the election year of 1976. Previously, the government was able to offset increased oil prices by the additional revenue obtained from the bauxite levy (see Table 1.4). Also, in 1976 the government program of increased exports and decreased imports began to take effect, which helped to alleviate the problem.

The Manley government sought alternate sources of capital, but was unable to raise the necessary funds. The manufacturers and industrialists were threatening massive lay-offs if foreign exchange continued to be short. The Manley government had no alternative but to accept IMF conditions.[21]

---

[21]These conditions are analyzed in Chapter III.

Table 1.4

JAMAICA EXPENDITURE ON GROSS DOMESTIC PRODUCT AT CONSTANT PRICES, 1974-81
(million of 1974 J $)

	PROVISIONAL							Estimate
	1974	1975	1976	1977	1978	1979	1980	1981
Consumption	1866.7	1904.6	1945.2	1918.5	1799.3	1706.7	1666.5	1667.6
Private	1479.6	1505.3	1499.0	1467.4	1330.7	1231.5	1210.0	1224.8
Public	386.1	398.7	446.2	451.1	468.6	475.2	456.5	442.8
Gross Fixed Capital Formation	478.2	482.3	339.0	234.4	239.6	289.4	224.4	236.1
Increase in Stocks	63.4	55.6	42.4	15.1	21.5	16.5	-11.9	24.0
Exports of Goods NFS	759.0	598.0	514.4	568.7	599.4	624.4	761.5	777.9
Imports of Goods NFS	-996.7	-1024.2	-821.3	-622.2	-686.4	-753.6	-728.5	-833.5
Statistical Discrepancy	-	60.5	-34.6	-67.0	-98.7	-117.3	-64.0	
Gross Domestic Product	2169.6	2156.7	2026.1	1987.3	1982.0	1953.4	1848.0	1872.1

Source: Department of Statistics and World Bank Mission Estimates
* NFS: Non-factor Services

Statement of the Problem

There are many who believe that the IMF is a bank of last resort and as such is not meant for development needs. But if one examines the formation of the IMF, it and the World Bank were supposed to be guiding forces in the reconstruction and development of the broken-down economies of Europe and Japan. The research asserts that the IMF was not formed to aid development of the Third World countries, and despite its present claim to be the most efficient advisor to LDCs, it has not changed its Articles of Agreement to reflect an appreciation of the problems of LDCs. Second, that political considerations, as well as economics, were the major factors in deciding the form of Jamaica's agreement with the IMF and that the IMF is not politically neutral but is an extension of United States foreign policy. Thirdly, that the Jamaican government was concerned with the historical struggle of the Jamaican people for land, employment, and equality. With this in mind, the Manley government set about to alleviate these ills. But the IMF program and recommendations which were geared to the private sector, industrialization, and exports, conflicted with the government's plans. The IMF, influenced by similar U.S. concerns, laid the foundation for a confrontation between the IMF and Jamaica that resulted in a change of government heavily influenced by IMF dictates. Although Manley had the mandate of the people, there were powerful forces working within Jamaica that were resistant to these changes. These forces were pro-IMF and therefore thwarted the Manley plans.

Theoretical Concerns

There are two major theoretical concerns of this research: (1) what rules govern IMF actions when confronted with a set of development objectives somewhat at variance from its own? In other words, can the IMF be used for development and economic prosperity of LDCs?; (2) what scope does the typical LDC (Jamaica) have for charting its own course while at the same time operating within an international capitalist framework?

The IMF is an international organization charged with managing international monetary problems. It operates under the aegis of the western capitalist system and is dominated by the Group of Ten. In a broad generalization, there are three worlds in the capitalist mold. The first consists of those countries that can attract international commercial loans mainly because of the structure and strength of their economies. The second world comprises those countries that cannot attract these loans because they are relatively underdeveloped. They have limited infrastructures and their economies are weak. Then there are those grey area countries that lie in-between the two extremes.

The present IMF policy is to treat all member countries alike:

> The Fund has always avoided dividing its members into categories and has sought to preserve the principle of uniform treatment of all members. This is attractive if it can be done without jeopardizing the interests of either group. But can it?[22]

---

[22]John Williamson, _The Lending Policies of the International Monetary Fund_ (Washington, D.C.: Institute for International Economics, August 1982), p. 13.

Nowzad has summarized the philosophy of the Fund towards LDCs:

> The Fund (as is evident from the Articles) has a market-oriented, pro-free enterprise, pro-capitalist, antisocialist philosophy, with a pronounced bias in favour of free trade, private investment, and the price mechanism. This reflects a "vision of the world" inspired and imposed by industrial countries, in particular the United States, on debtor (implicitly developing) countries. Many economists and politicians genuinely believe that the policies implied by this philosophy are in the best interests of developing countries. It must be recalled, however, that these officials are Western-trained and believe in the efficiency of the market. The imposition of this philosophy is facilitated by the dominant voting power of the industrial countries; in this way, the Fund serves the interests of creditor countries and helps to preserve their resources from claims by developing countries to larger resource transfers. In brief (as one Head-of-State has put it), the Fund is a "device by which the rich countries increase their power over the poor."[23]

The Fund has two major philosophies that express the above view in its "Low Conditionality" and "High Conditionality." The former applies to the developed countries which are characterized by high industrialization, relatively full employment, and strong economies that might suffer periodic "balance of payments needs." What these countries need from the IMF are small adjustments of their currency and small loans relative to their economies to make these adjustments. "High Conditionality" loans are large loans relative to the economy of the debtor country. These loans address major financial problems characterized by repayment of former loans and the building up of some basic infrastructure. (Britain is an exception).

---

[23]Bahran Nowzad, <u>The IMF and its Critics</u> (Princeton University, December 1981), p. 7.

The real difference between Low Conditionality and High Conditionality is the level of IMF influence. Low Conditionality countries have access to commercial banks, so the percentage of the money needed to correct their balance of payments deficit from the IMF only allows for nominal IMF advice to correct the problem. "High Conditionality" countries with a greater dependency on the IMF have to undergo more stringent IMF dictates.

> The Fund clientele has shrunk to this second group of countries, in which the commercial banks seek, to avoid exposure, . . . low income countries, which currently receive two-thirds of the Fund's total commitments, account for a mere 7 percent of the banks' exposure in non oil developing countries.[24]

The IMF increasingly has the responsibility of managing the LDCs' financial problems. IMF insistence on "High Conditionality" causes severe shocks to the economies of the LDCs. However, the organization would become an aid donor if there was no conditionality. The LDCs not only want loans at lower rates, but they also advocate a reorganization of the IMF to reflect the present realities of its functions. It was funded to adjust world monetary policies, but today's main influence is on the economies of LDCs.

The above IMF responses are general economic solutions, but there is a political aspect to IMF conditions. Sharpley is of the opinion:

---

[24]John Williamson, The Lending Policies of the International Monetary Fund (Washington, D.C.: Institute for International Economics, August 1982), p. 13. For countries under High Conditionality see John Williamson's Conditionality.

> . . . that there is a relationship between the ability and willingness of developing countries to accept Fund conditionality and the amount of resources the Fund is able to make available. While the Jamaican authorities had allowed the economy to deteriorate dramatically before going to the Fund, the conditions for this agreement were out of all proportion to the resources the Fund made available. Even if the agreement was seen by the Fund as a test of the government's determination to implement tough stabilization measures, the size and conditionality of Fund resources provided little scope and encouragement for the government to adhere to this goal.[25]

The Jamaican position was not unlike Britain's situation. The British, because of their deteriorated economy, were granted an IMF "High Conditionality" loan of $3.9 billion. The British complained bitterly about the stipulations, but were spared IMF harsh terms by: 1) the increasing revenues of North Sea Oil; and, 2) influencing the IMF because of her unique relationship with the United States.

> Even making due allowance for the fact that the British ministers mistakenly sought U.S. involvement in an attempt to avoid conditionality, this involvement was most unfortunate. It is the Fund's mission not that of the U.S. treasury secretary, or even the under secretary for monetary affairs, nor the chairman of the U.S. Federal Reserve Board to assess the outlook, drawing requirements, and necessary conditions pertaining to the applicant country. Such involvement can place pressure on the Fund's managing director, even if the advice of another government is not directly made to him, and could wrongly influence his decision. It should be strictly avoided in the future.[26]

The point to be made is that developed countries are resistant to "High Conditionality," and Britain used her

---

[25]Jennifer Sharpley, "Economic Management and IMF Conditionality in Jamaica" in John Williamson, op. cit., p. 260.

[26]Malcolm Crawford, "High Conditionality Lending: The United Kingdom" in John Williamson, op. cit., p. 438.

political influence in the IMF to avoid harsh terms. Britain was able to do this because she had the necessary and sufficient conditions of a developed economy. and was able to stabilize her economy with an increase in revenue. However, LDCs like Mexico and Nigeria, even with their new-found oil wealth, were unable to balance their economies. The problem was even worse in small countries like Jamaica.

The Manley Government's Policies

The Jamaican government policy was limited by the size of the economy and the great need of the majority. Contrary to the press reports of Jamaica's radical change towards socialism, the government's position had always been reformist rather than revolutionary. In declaring his government democratic socialist in 1973, Manley was very careful in differentiating between communism and democratic socialism.

> The democratic was to be given equal emphasis with the socialist, because we were committed to the maintenance of Jamaica's traditional and constitutional plural democracy; and more importantly, because we intended to deepen and broaden the democratic process of our party and in the society at large . . . In addition, we intended to pursue what is now termed a non-capitalist path of development to distinguish experiments like ours from the neo-colonial capitalist model of the Puerto Rican type and the Marxist Leninist model of the Cuban type.[27]

These new directions meant that the relationship between Jamaica and international organizations dominated by western

---

[27]Michael Manley, Jamaica Struggle in the Periphery (London: Writers and Readers Publishing Cooperative Society LTD, 1982), p. 123.

capitalist philosophy would have to be reconsidered.

The Manley government's declaration of democratic socialism is based on a belief in dependency theory. Manley, like Nkrumah and Rodney, believed that the internal problems of the LDCs cannot be solved without changes in the international order. The present structure has changed little since colonialism; the granting of political independence was not accompanied by economic independence.

Manley's position is close to Gunder Frank's analysis:

> . . . our ignorance of the underdeveloped countries' history leads us to assume that their past and indeed their present resembles earlier stages of the history of the new developed countries . . . . Further, most studies of development and underdevelopment fail to take account of the economic and other relations between the metropolis and its economic colonies throughout a world-wide expansion . . . development of the capitalist system as a whole and to account for its simultaneous generation of underdevelopment in some of its parts, and of economic development in others.[28]

The position is compared to the other adherents of the dependency school: Dos Santos, Furtado, and Cardosa. They are of the view that despite dependency there is development. Dos Santos is of the view that there are three forms of dependency: colonial, financial, and technological.

Colonial dependency is based on an export economy and colonial control of the primary sectors of mining and agriculture and the exploitation of cheap labor. Financial

---

[28]Gunder Frank, The Development of Underdevelopment (New York: Monthly Review Press, 1966), p. 23.

dependency is characterized by the export of capital and the extraction of raw materials for capitalist production in the center. Technological dependency is the adoption of import substitution which uses the technological innovation of the DCs to produce goods for the local domestic market.[29]

Furtado does not see it in as dismal a light:

> It was the process of industrialization aimed at the substitution of imports, that reproduced the split in the structure of the productive apparatus characterized by the coexistence of capital intensive industries, catering to the modernized minority, with traditional activities (rural and urban) catering to the mass of the population and to foreign markets . . . Furthermore, taking into account that dependence is permanently reinforced through the introduction of new products whose production require the use of sophisticated techniques and higher levels of capital accumulation, it becomes evident that industrialization will only proceed if the rate of exploitation increases, that is, if income distribution keeps concentrating.[30]

Cardosa shows that there are structural changes in the LDCs, and although change is slow it is definite. These trends are shifting the perspective of LDCs:

1. In the Capitalist Center
    a. Financial capital is no longer in control of banking and industry.
    b. The rate of profits in the LDCs is not declining but tending to increase in the long run.
    Investment is shifting from raw materials and primary commodities to the manufacturing sector.

2. Due to participation in production, Third World countries can develop along with the capitalist center.

---

[29]Thestonio Dos Santos, "The Structure of Dependence," American Economic Review, May 1970, pp. 20-40.

[30]C. Furtado, Underdevelopment and Dependence: The Fundamental Connection (Cambridge University, November 22, 1973) mimeo, pp. 3-4.

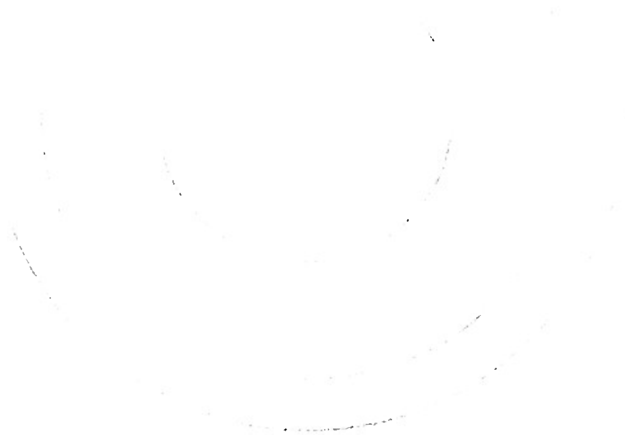
3. Internal markets are developing manufactured commodities.

4. Local savings are increasingly due to joint participation and less profit reparation.

5. The periphery is absorbing less and less trade from the center.

6. The technological dependence means that the center still produces the means of production while the periphery produces other commodities.[31]

The dependency school of thought is diverse, ranging from Frank to Cardosa.



U.S., BRITAIN (1ST WORLD)

SOCIALIST BLOC, JAPAN, ITALY, AUSTRALIA, (2ND WORLD

JAMAICA, BRAZIL, NIGERIA. (3RD WORLD)

SOMALI, BANGLADESH (4TH WORLD)

Key: The center circle, the most exploitative countries.
: Outer circle the most exploited countries (closest to Frank's analysis.
: Third circle the bulk of the Third World (varies from Dos Santos to Cardosa depending on the level of development)
: Second circle the socialist countries they tend to trade with each other, generally tending to equitable trade (Canada, Australia, etc.) The level of expolitation is less than that of the center - also their trading patterns with LDCs are less exploitative.

---

[31]F. H. Cardosa, "Dependency and Development in Latin America," Left Review, July-August 1972, pp. 83-95.

Each analysis has some merit because the LDCs are heterogenous and are at varying stages of development. One, then, has to adopt the proper analysis from these authors to fit the particular country. See Table 1.5.

In trying to break the strangle-hold of the developed countries, Manley supported the OPEC cartel, nationalization, and public sector spending. Manley was determined that the OPEC strategy should work. The LDCs over the years were making gains, but OPEC had the most possibilities.

> OPEC merely demonstrated that in one particular area in which the West was very dependent, the existing rules of the game could be changed by some enhanced degrees of Southern strategy.[32]

Jamaica was adversely affected more than most LDCs by the oil increases:

> Jamaica is 97% dependent on oil for energy. In addition, it is a surprisingly big user of energy per capita for a Third World country. This is so because of the substantial growth in manufacturing which had taken place during the previous thirty years.[33]

Manley understood that OPEC needed all the help it could get because it is a heterogenous group that had different demands. Although OPEC was receiving these new revenues its capacity to utilize them was markedly different. The OPEC countries, too, are dependent on the industrial west, and they do not have the political will to act as a body to alleviate the oil problems of the other LDCs. But even so,

---

[32]Ul Haq, op. cit., p. 19.

[33]Michael Manley, op. cit., p. 149.

sacrifices had to be made in the first efforts to change the international system. The efforts of Manley in forming the bauxite cartel and his support of OPEC, although dramatic, were reformist rather than revolutionary. He wanted restructuring of the international system, not its destruction or refusal to participate.

The Manley government programs were a step-by-step approach to change. His most revolutionary effort was the initial rejection of IMF terms in January of 1971. (See Chapter IV.) Manley's achievements: reducing unemployment, women rights, better labor relations, land reform, the attempt to eradicate illiteracy, and an improved educational system were all reformist. His insistence that internal reforms without addressing the international inequalities would not alleviate the plight of Jamaica is attributable to the dependency school of thought.

The dependency theory argues that the world international system is inequitable. The international trading system benefits the developed countries. It is the Liberal contention that the present system serves as an engine of growth and provides capital, technology, and education which will improve the lot of the LDCs. Those in the dependency school and the Marxists are convinced that the present international system promotes underdevelopment of the LDCs. The dependency trend of thought falls under the Structuralist school, which differs from the Marxists in that it believes the international system can be reformed, while the Marxists advocate its destruction.[34]

Research Concerns

The problem faced by LDCs in financing their development has become increasingly more difficult with the twin problems of deteriorating terms of trade with the DCs and contraction of the LDCs' economies since the OPEC formation (in Chapter II we will analyze OPEC's efforts to address this problem).

> Increases in the petroleum prices have added over $10 billion to the import bill of the non oil-exporting countries of the developing world. Attendant increases in food and fertilizer prices add another $24 billion. The net impact has been to double their balance of payments deficits from $10 billion in 1973 to $20 billion in 1974, offsetting the flows of concessionary loans and grants from the developed countries.[35]

The specific research concerns to be investigated are (a) the development and role of the IMF, (b) the development plans of Jamaica, particularly reform of the society and the conflict over these reforms between the Jamaican ruling class and the IMF.

We will investigate the original purpose of the IMF. While the LDCs dominate the membership they are, in many cases, in desperate need for funds. Can the IMF help in the development of LDCs when the development concerns are never articulated by the IMF? Have there been any changes within the organization to address the LDCs' development plans?

---

[34]Spero, op. cit., pp. 138-141.

[35]Nazki Chourchi and Vincent Ferraro, International Politics of Energy Interdependence (Lexington: Lexington Books, 1976), pp. 66-74.

Jamaica had a definite development plan. The IMF had its own set of plans and in order to get IMF assistance Jamaica had to comply with IMF conditions. It will be instructive if we analyse the Jamaican plans by asking specific questions. What were the policies adopted by the Manley government to ensure Jamaica's development? (Jamaica experienced negative growth for the majority of the Manley years as indicated by Table 1.4.) Were the social changes enacted by the government responsible for the decline? Was the Manley government correct in its' assessment of Jamaica's situation in the international economic system? Did Jamaica's call for a new economic order adversely affect her relationship with the major industrial countries and international organizations?

Jamaica is beset by internal conflict. The population is predominantly black, with a small ruling class of white and brown men. There is a very small middle class in each of the above classes or groups that copies United States consumerism. The masses of the people live below the poverty level. The Manley government decided that they should be brought into the mainstream of the society. The public sector was thought to be the most effective and immediate vehicle to make this possible. This meant that the ruling class would have to pay more in taxes on land and other income. The present system is inequitable because it taxes the entrepreneurs and working people more heavily. They have the pay as you earn (income tax) system as well as taxes on consumer goods (sales tax). There are many who escape the direct tax system such as independents, professionals, artisans and the urban petty traders, (the latter have become a viable force in the economy and yet unlike the rich they are not taxed adequately).

Because of the increased taxes on them the middle class became disenchanted with the Manley government. The questions had to be asked, what role did they play in the political arena? Were they sufficiently aware of the on-going conflict between Jamaica and the IMF? How much influence did they have on the final outcome between the IMF and Jamaica? (See Chapter IV.)

A major concern of the IMF was the fiscal management of the economy. Another was the role of the Bank of Jamaica; they were concerned about the Bank's financing of large public expenditures. This laid the foundation for political conflict. The government held on to its political philosophy, while the IMF insisted on its prescribed economic plan, hence the political-economic impasse between the two.

Methodology

The investigation of the above set of issues poses a variety of problems from a methodological point of view. The approach followed in this paper is a compromise among a set of requirements for strict verifiability.

In order to investigate the first of our research concerns, we propose to examine the specific conditions of the IMF's formation and its rules of behaviour. From this we may be able to suggest an approach that describes its modes of action in dealing with peculiar circumstances that Jamaica faces. The specific circumstances of having to deal with LDC debt problems and financial restructuring will then be highlighted.

The second question will be analyzed on the assumption that the political philosophy of a particular government, if strongly held, will to a large extent determine how flexibly that country will behave in the context of the negotiations with external bodies. A selective review of Jamaica's modern political development sets the stage then for a study of the PNP's political philosophy. Such a study will highlight the aspects of such a philosophy which are regarded as non-negotiable (as opposed to those which are), and will allow inferences about the likely outcomes of serious negotiations which have the possibility of seeming to undermine those non-negotiable elements of political philosophy.

This thesis can be regarded as a case study of responses to IMF conditionality, and as such, reflects the strength of the case study approach. It, however, necessarily has the limitation of limited generalizability outside the time-space context of Jamaica's socio-economic developmental history. Data generated by the IMF, Bank of Jamaica, the Department of Statistics (Jamaica), the World Bank, and the Jamaican National Planning Agency will provide the quantitative dimensions of the evidence used. In addition, the paper will utilize qualitative assessments generated by a wide group of interested parties in the debate concerning Jamaica's relationship with the IMF. Also, survey data will be used to examine the internal conflict between the Manley government and the ruling middle classes.

Review of the Literature

Drawing from her experience as a staffer of the Overseas Development Institute (ODI), Teresa Hayter has documented the purpose of aid to the developing countries. In Aid As Imperialism she illustrates how the international organizations, specifically the IMF, the World Bank, and the United States Agency for International Development, have colluded by acting only in their interests, under the guise of aid for developing countries. It is an open secret that aid served the purpose of the developed countries:

> Aid is, in general available to countries whose internal political arrangements, foreign policy alignments, treatment of foreign private investment debt servicing record, export policies, and so on, are considered desirable, potentially desirable, or at least acceptable, by the countries or institutions providing aid, and which do not appear to threaten their interests.[37]

On the surface this would appear to be the necessary condition to solicit another's help, but one has to consider the history of exploitation and the terms of trade that

---

[37]Teresa Hayter, Aid As Imperialism (Harmondsworth, England: Penguin Books, Ltd., 1972), p. 15.

developed countries have had over developing ones.

The author further elaborated on her observation by examining the operations of these agencies in four Latin American countries: Colombia, Chile, Brazil, and Peru. Although the circumstances were not quite similar, the underlying results were. Whenever those four countries have had populist governments intent on making mild reforms, such as expansion and redistribution of the national income, and in one case the redistribution of land, the IMF has called for devaluation of the currency and has broken off relations with them. The IBRD and AID have tried to influence the political process, but because their aid was on a long-term basis, it was not as easy to sever relationships. The question that needs to be asked is, Who benefits from aid given by those international agencies?:

> The crucial issue is whether the present systems of economic and social organization in Latin America, based on private enterprise, a respect for property, however unequally distributed, and economic and political dependence on the United States, are capable of providing real improvements in the conditions of life of the masses of the people. The policies of the international agencies imply that they are, or that such improvement is unnecessary or secondary to other considerations or simply that the United States, supported by the major financial agencies, is determined to preserve the existing situation for as long as possible . . .[38]

Cheryl Payer sets the basic foundation of the IMF operations in her book, The Debt Trap. It is necessary to have an organization like the IMF because of growing

---

[38]Ibid., p. 63.

interdependence and trading among nations. When nations trade they have different balances because of the division of labour and capital around the world. The developed countries trade among themselves predominantly in finished goods and trade with the LDCs for raw materials. Historically, the developed countries have had the advantage in trading, because raw materials are controlled, and dependent on the whim and fancy of the developed countries. As importantly, the developed countries have control of the markets, and often use the market forces to depress or accelerate the usage of developing countries' raw materials.

Over time the developed countries have had the advantage over the developing nations in trade resulting in unequal exchange rates. The fluctuation in demand for raw materials and the pricing of them by the developed countries have exacerbated the unequal exchange problem. The IMF, as an international organization, should be addressing the problem of equity in trading and unequal exchange rates, but its record is one of failure to address these issues, while it blames the victim, the LDCs', for inefficiency. Their efforts were inadequate and led to the LDCs demand for a NIEO.

IMF approval, Payer records, serves as a prerequisite to all major sources of credit in the developed capitalist world, whether governments or multilateral institutions such as the World Bank. If not approved by the IMF, the particular country is blacklisted and refused any type of aid. She concludes:

> The IMF is not the real villain of the plot, though it is the agent of the villains. They are the multinational corporations and capitalist governments which are the natural enemies of Third World independence and can usually mobilize the resources to crush it.[39]

This adds weight to Hayter's notions that aid was a secondary source of influence:

> I believe, now, that the existence of aid can be explained only in terms of an attempt to preserve the capitalist system in the Third World. Aid is not a particularly effective instrument for achievement; hence, its current decline. But, insofar as it is effective, its contribution to the well-being of the peoples of the Third World is negative, since it is not in their interest that exploitation should continue.[40]

Development is a somewhat difficult term when one considers the European countries and Japan; their development went through the stages postulated by Rostow's stages of growth. But, applied to developing countries, these stages cannot stand up to critical analysis. The LDCs at this point and time have more external interference than those countries had. A more meaningful and realistic definition is given by Dudley Seers. Although not inclusive, it sheds more light on the problem:

> The questions to ask about a country's development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt, this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to

---

[39]Cheryl Payer, The Debt Trap (New York: Monthly Review Press, 1971), p. 10.

[40]Hayter, p. 9.

call the result development even if per capita income doubled.[41]

The other side of the coin is underdevelopment, which is the bane of the developing countries, and which Dennis Goulet tries to describe:

> Underdevelopment is shocking: the squalor, disease, unnecessary deaths, and hopelessness of it all: No man understands if underdevelopment remains for him a mere statistic reflecting low income, poor housing. premature mortality or underdevelopment. The most empathetic observer can speak objectively about underdevelopment only after undergoing, personally or vicariously, the shock of underdevelopment. This unique culture shock comes to one as he is initiated to the emotions which prevail in the culture of poverty. The reverse shock is felt by those living in destitution when a new self-understanding reveals to them that their life is neither human or inevitable . . . The prevalent emotion of underdevelopment is a sense of personal and societal impotence in the face of disease and death, of confusion and ignorance as one gropes to understand change, of severity toward men whose decisions govern the course of events, of hopelessness before hunger and natural catastrophe. Chronic poverty is a cruel kind of hell; and one cannot understand how cruel that hell is merely by gazing upon poverty as an object.[42]

The Report on the North-South dialogue is the result of a Commission of representatives of the North-South leaders, academicians and specialists, under the chairmanship of former West German Chancellor Willy Brandt. Their task was to analyze and recommend changes in North-South relationships. This independent group was concerned about the history of open confrontations between the North-

---

[41]Dudley Seers, "The Meaning of Development," International Development Review, XI (December 1969), p. 5.

[42]Dennis Goulet, Economic Development in the Third World (New York: Longmans, Inc., 1981), p. 61.

South and the hardened positions taken by them at the more conventional international meetings where old cleavages remained and no meaningful solutions were forthcoming. The Commission said the situation warrants urgent reasoning and common understanding to solve a problem that includes all of mankind. Although not wanting to sound alarmist, they had this to say:

> This Report deals with great risks, but it does not accept any kind of fatalism. It sets out to demonstrate that the moral dangers threatening our children and grandchildren can be averted; and that we have a chance, whether we are living in the North or South, East or West, if we are determined to do so, to shape the world's future in peace and welfare, in solidarity and dignity.[43]

The report gives a general description of the grave problems facing the world at present: the plight of the poorest countries: hunger and food, population growth and movement, and the environment; disarmament and development; commodity trade and development; energy; industrialization and world trade; transnational corporations; investment and the sharing of technology; the world monetary system; development finance; unmet needs; a new approach to development finance; international organizations and negotiations and a program of priorities.

The major theme of the work is that we are our brother's keeper and in a world becoming more interdependent, concessions and compromises have to be

---

[43]Independent Commission on International Development Issues, North-South: A Program of Survival (Cambridge, Mass.: MIT Press, 1980), p. 23.

shared for mutual benefits and the common good. The North is developed and has technological know-how, the South has raw materials and is underdeveloped. The East is between these position, but it needs to play a more meaningful role in world problem-solving. The heart of the matter is that the terms of trade between the North and South are inequitable. The Commission, like Spero, Lett, and other authors, dwelled on the fact that the percentage of trade between the North-South is rather low compared to that among the western developed countries. This is not as significant a fact as the figures would imply, as Ul Haq has pointed out, the 20 percent of trade between LDCs and DCs is misleading because of the type of goods traded. When the North buys raw materials from the South at a low price, it's value or price/cost values rises when the revenues from shipping, manufacturing, advertising and the resale of the finished goods are added. This has the added effect of creating employment in the North, and the gaining of profits by several sectors in the North to the exclusion of the South.

One draws this illustration to set the stage for a more realistic bargaining position between North and South. In the long run it is hoped that a more equitable trading relationship between North-South would be attained and that mere statistics should not be used to cloud a situation that is predicated on inequities. On the other hand, the South should not make unrealistic demands.

In many instances, a great influx of capital will only exacerbate southern problems of massive public spending when there are few trained locals available to administer or execute the influx of funds (e.g. Saudi Arabia, Nigeria). More importantly, benefits derived from these agreements should be used for the upliftment of the general population and not for a privileged few.

In a study by John Williamson, a group of economists, and IMF officials, which by their own definition "was . . . mildly more centrist than initially planned but reasonably diverse nonetheless," met to discuss The Lending Policies of the IMF. The group assessed the negative image of the IMF.

> The Fund has been accused of adopting a doctrinaire monetarist approach and being insensitive to the individual situations of borrowing countries; imposing unreasonably one-sided conditions; being ideologically biased against socialism and in favor of free markets, and even perpetuating dependency.[44]

By and large, they found that although the Fund is not perfect these charges were unwarranted if not unfounded.

The role of the Fund was conceived as a monetary institution charged with solving problems of payment deficits of member countries and preventing their adopting measures destructive to national and international prosperity.[45] They found that at its inception the Fund was characterized by limited borrowing from member countries,

---

[44]John Williamson, The Lending Policies of the International Monetary Fund (Washington, D.C.: Institute for International Economics, 1982), p. 63.

[45]Ibid., p. 11.

and that there were substantial bilateral agreements between the United States and the devastated industrial countries under the Marshall Plan.

Loans of the period were generally "Low Conditionality" where a country with a balance of payment need (deficit) declares its problem to the Fund, and is loaned the amount requested, on assurance that it will eliminate its deficit.[46] "High Conditionality," which started in the 1960s and especially with the newly developing states, involves a specific set of measures needed to eliminate a deficit, and the country has to undergo specific requirements set up by the Fund and the commitment of the member country to comply.

The Commission goes on to state that the IMF is essentially a bank, and it cannot be frivolous in its lending policy, and that there must be a certain amount of conditionality for members to borrow.[47] What they found was an unfavorable situation; countries were coming to the IMF as a last resort, making it difficult to assess whether it is the banks' conditionalilty or the already precarious position of the country that causes the bad press and impression of the IMF "overkill." Of late, the IMF has tried to change that image by lending India a substantial

---

[46]Ibid., pp. 11-12.

[47]The Commission was part of a conference at Airlie House, Virginia chaired by C. Fred Bergsten and the results published by John Williamson.

sum of $5 billion as a lender of first resort. The performance figures on this transaction are still being analyzed.

What the developing countries are most concerned about is the design of the IMF adjustment programs. Should the IMF interfere with the mix of policies of the particular country? The view is that it might be well to devise policies for balance of payment improvement, but "the challenge is to find a set of policies that will do so without sacrificing growth, employment, and an equitable distribution of income. . ." [48] The Commission posed the problem that states are sovereign and as such would be difficult for the Fund to please every one of their particular demands and serve the interest of all. The Fund functions better, they believe, if its technocrats lay down broad and general guidelines.

As a whole, the Commission found that Fund policy was not excessive. However, they characterized Fund policy on certain countries as follows:

> The Fund can be accused of a lack of political realism in both Jamaica and Peru for having started by demanding drastic changes in policy, involving a fundamental scaling down of those countries' ambitions to accord with unpleasant realities, in return for a minimal level of Fund financial support but that is not the same as having demanded overkill.[49]

On the whole, they found the Fund was not monetarist. According to Williamson, its theoretical position is

---

[48]Ibid., p. 25.

[49]Ibid., p. 54.

"eclectic" rather than "monetarist." Also the Fund was not necessarily anti-socialist. At the time of the conference some 11.5 percent of Fund loans went to six Communist countries and at one time Jamaica was the heaviest per capita borrower from the Fund.

They did recommend some improvements: 1) The IMF could not be a lender of last resort; it should become more involved in structural deficits. 2) It should respond more closely to cyclical vagaries of the international system and lend weaker members in desperate situations more. 3) The extended facility should be more flexible so as to help continue to adjust to structural deficit, and a more closely coordinated cooperation with the World Bank. 4) In addition, the Fund should take into consideration output, growth inflation, and income distribution as well as balance of payments. 5) Credit ceilings should be contingent rather than fixed requirements. 6) Quotas should be large enough that the Fund can play the role it was designed for, and low conditionality loans should be given to countries whose deficits are caused by forces outside of a country's control.[50]

Joan Spero contends that modern western academe and liberals have clouded the concept of political economy. Their insistence that politics and economics are separate has brought about an artificial separation. On the one

---

[50]Ibid., pp. 57-59.

hand, they see the economic system based on production, distribution and consumption of goods and services. These, they insist, obey natural laws, while the political consists of power, influence, and public decision-making.[51] They conclude that their only hope for peace and harmony is for politics to be isolated from economics, for the natural and harmonious processes of free trade to operate among nations bringing not only prosperity, but peace to all.

Her alternative suggests that economics and politics are interconnecting, and that there are three ways in which political factors shape economic outcomes: (a) the political system shapes the economic system, (b) political concerns often shape economic policy, (c) international economic relations, in and of themselves, are political relations.[52] She then shows how political considerations played an important role in the management of economic relations since World War II and how the Bretton Woods system emerged, and the subsequent United States control of the system. It worked well until the late 1960s after which United States dominance could not control the system any more. The new vagaries of the international political and economic relations have created a complex system requiring genuine international cooperation.

---

[51]Joan E. Spero, The Politics of International Economic Relations (New York: St. Martin's Press, 1981), pp. 1-2.

[52]Ibid., p. 4.

Spero is of the opinion that the difference between competing political systems is one of the major reasons for continued conflicts. It is characterized by the Western countries and their interdependency, the North-South system and its dependence, and the East-West system of independence. The former has a crisis of management because of rapid economic expansion and the bankruptcy of effective management. The North-South system of dependence, which the South is convinced is caused by the North, provides development in the North and underdevelopment in the South. The Eastern bloc countries are not integrated into the western system and tend to develop by themselves. For the international system to operate and especially the monetary system, all the political systems have to be integrated and play meaningful and responsible roles. It will take more than idealism to get the parties together. One hopes however that mutual self-interests in living on the same planet will somehow have the different systems working together in the future.

Professor Bourne is of the opinion that the Manley government, although well intentioned, was a financial disaster to Jamaica.[53] But one should point out that Jamaica needed to break the cycle of unemployment and poverty. He points out that the Special Employment Program

---

[53]Compton Bourne, "Jamaica and the International Monetary Fund: Economies of the 1978 Stabilization Program " Economics and Sociology Occassional Paper #729. (Columbus, Ohio: The Ohio State Univeristy, 1980), p. 18.

of 1972 began as a means to relieve the unemployment problem, but actually resulted in a major policy of work creation during the administration's tenure. Another example he cited was the Free Secondary Education Program. It might be a good long run investment, but it depressed the government's treasury at an inopportune time.

He faults the government expenditure over private enterprise and says,

> The central conclusion to be drawn so far is that the Jamaican balance of payments crisis is largely attributable to the poor export and production performances of the economy, domestic credit expansion, inflation, and excessive growth of governmental services.[54]

The IMF therefore was acting in Jamaica's best interest in imposing stricter fiscal management of the economy. He agrees that the IMF devaluation would serve to lessen import demand that was already depressed by the bad economy. The stabilization programs, he insists, would have the effect of lowering public and private consumption. The government revenue would then increase and the deficit would be lessened from 13.4 percent to 4.5 percent in 1978. As importantly, government savings would change from the disastrous 1.3 percent of G.D.P. to 7.9 percent.[55]

For all of this, the IMF was to provide $240 million in loans over three years. Also, it was projected that private foreign credits would be used to supplement the

---

[54]Ibid., p. 19.

[55]Ibid., p. 20.

economy, but these credits should not exceed a total of $100 million dollars because she would run into the problem of debt servicing, which has been the bane of other developing countries, namely, Brazil, Mexico, and Argentina.

Professor Bourne says that the IMF program had not been followed to the letter because the government reneged on its public sector wage increases, and failure to meet the IMF performances could be attributed to this.[56] This caused the major problem between the IMF and Jamaica because they were opposed to an expanded public sector.

It would appear that Professor Bourne's recommendations are those that the Manley government was totally opposed to and the typical form of dependency that the Latin American economists in the dependency schools are bitterly opposed to.[57]

---

[56]Ibid., p. 26.

[57]Gunder Frank, The Development of Underdevelopment (New York: Monthly Review Press, 1966), p. 56.

CHAPTER II

THE DEVELOPMENT OF AN INTERNATIONAL MONETARY SYSTEM

It is commonly mistaken that the modern impulse for an international monetary order in the form of a Clearing Union came from John Maynard Keynes. It has been documented that Dr. Walter Funk, Minister for Economic Affairs and President of the Reichsbank under Nazi Germany, thought of the idea for a United Europe under Hitler's rule. The German success over Poland and France led them to believe that they could finally unify Europe and Asia. They then thought about a system to manage world trade:

> The clearing system would make gold superfluous for currency and payment purposes within the clearing . . . Trade with other continents would be regulated by barter agreements . . .[1]

The British got wind of the idea of a clearing union and of a system that would reject the backing of national currency by gold, and the concept of international trade on a need basis facilitated by a barter system. Maynard Keynes was the man appointed to combat this German financial propaganda. The logic of the reasoning convinced him of its viability, and instead of rejecting it, he accepted the notion, and in addition co-opted it as a British original.

---

[1]Helen Alfred, (ed.) The Bretton Woods Agreement and Why It Is Necessary (New York: Citizens Conference on International Union, 1944), p. 6.

Keynes realized the futility of returning to the old laissez-faire arrangements whereby a country could be bankrupt, "not because it lacked exportable goods, but merely because it lacked gold."[2] He then set out to convince the English financial powers of the desirability of such an international system and having done so, to convince the United States. Fortunately for him, Morgenthau, the Secretary of the Treasury, was anticipating some form of international monetary system.[3]

It took some convincing of the American politicians; the United States had entered a new level of world power and its consequent responsibilities. There were two major forces at work: the internationalists and the isolationsists. There were those who recognized that the United States had become the major power in the world and concomitant with military power is economic power.

> The United States, of course, was the dominant element. For better or worse only the U.S. had the resources to make these institutions work. Moreover . . . and people often forget this in recalling the Bretton Woods Conference . . . the war was still on. The Normandy landings took place only a month before the conference opened. The allies had not yet broken out of the Normandy beachhead; nobody knew when the war would end or how it would be won. There was almost complete dependence on the United States militarily, politically and economically. No wonder then that the U.S. role at Bretton Woods was decisive. It is unlikely that there will ever be another world conference in which American power is so preponderant.[4]

---

[2]Ibid., p. 7.

[3]Alis Acheson, J. F. Chant and M. F. J. Prachony, Bretton Woods Revisited (Toronto: University of Toronto Press, 1972), p. 23.

[4]Ibid. p. 24.

Like Britain before her, the United States was cast in the role of world leadership and the governing of a stable international monetary system. The internationalists, led by Secretary of State Hull, influenced by Dean Acheson, were convinced that liberalized trading would solve the problems of the world and eliminate war.

In the United States, however, all were not ready to take on the new world leadership role.

> The most important objective of international cooperation is undoubtedly a large volume of trade. In the past we have been eager to sell but not by buy. We must do both. If there were a free flow of trade between all commercial nations there would be no reason for major wars. The interchange of goods and ideas, not only eliminates to a very considerable extent the underlying causes of war, but would help materially to increase world-wide production and minimize unemployment.[5]

The isolationists were concerned with domestic production and the protection of their local markets from the expected revival of the European economies. Therefore, the internal politics of the United States was not settled and there were divisions on the executive level as well as within the Congress and the population as a whole. Secretary Cordell Hull was inclined to solve the balance of payments difficulties by lifting trade restrictions and import charges. Secretary of the Treasury Morgenthau was inclined towards financial aid and exchange controls. Morgenthau had the President's ear so the IMF concept won over the International Trade Organization that would have been more

---

[5]Ibid., p. 17.

reflective of Hull's position. At the same time the American people and Congress had to be wooed. The U.S. had, at that time, never been part of an international organization; it had declined membership in the ill-fated League of Nations and there was a lingering isolationalist tradition in the country.[6]

The Bankers favored the State Department's plan for a free market. But, it was doomed to failure because of the mood of the American public, especially the mid-western farmers. They were against any international free trade. The memories of the depression were still vivid in their minds, and they wanted to protect their domestic market. What the farmers were afraid of was the practice of the international community in the 1920s and 1930s, the beggar-my-neighbor policies of the industrial countries. What they did was to export their unemployment by dumping goods on each other. They would sell exports cheaper than prices in their domestic markets so as to keep their factories running, farms cultivated and their people employed. By so doing, they were able to keep employment at home and export unemployment to their trading partners. The farmers' protectionist stance weakened Secretary Hull's position of free trading and enhanced the Treasury's plan of financial aid and exchange control to eventually win out over an International Trading Organization (not that the farmers

---

[6]Winthrop Aldrich, Some Aspects of American Foreign Economic Policy (New York: Columbia University Press, 1944), p. 142.

were pro-Treasury, but it suited their limited world view).[7]

The White Plan

The American Plan for the IMF was developed by Harry Dexter White. He worked on his draft from 1941 to 1943. He was influenced by John Maynard Keynes, the British counterpart in developing the plan. The White Plan essentially advocated:

> The Bank was to have a capital stock of $10 billion, half paid in immediately by members in the form of gold and local currency. It was designed chiefly to supply the huge volume of capital to the United States and Associated Nations that will be needed for reconstruction for relief, and for economic recovery. It was designed to eliminate world-wide fluctuations of a financial origin and reduce the likelihood, intensity, and duration of world-wide depressions; to stabilize the prices of essential raw materials; and more generally to raise the productivity and living standards of its members. It was specifically empowered to buy and sell gold and securities of participating governments, to discount and rediscount bills and acceptances, to issue notes and to make long term loans at very low rates of interests.[8]

What White envisaged was a lending bank with capital stock of about $10 billion, and credit-creating power to issue multiple loans to the tune of $60 billion. This was horrifying to the international bankers because of the amount of international liquidity that would be created. The IMF would become an institution that would literally usurp the international bankers' power by putting all their functions into an international agency. The international

---

[7]Fred L. Block, The Origin of International Disorder (Los Angeles: University of California Press, 1977), p. 53.

[8]Richard N. Garner, Sterling-Dollar Diplomacy (New York: McGraw-Hill, 1969), pp. 74-75.

bankers saw an opportunity to lend money on the world mark (then limited to Europe and some Latin American countries), but a supranational lending agency would compete against them by lending money to developing countries. The IMF long-term goal should have been full employment policies based on the economic principle of comparative advantages, rather than protectionist policies and short-term fix-it remedies. To accomplish this expansionary policy the plan called for little or no change in the exchange rate; and balance of payment problems would be handled by mild disinflationary policies in deficit countries and expansionary policies in surplus countries. The While Plan envisioned a wider trading area and the involvement of more countries in a broader and wider world community.[9] One cannot go overboard with the White Plan's expansionary role. It was limited, then, in how the world was perceived because the Asian and African countries were not independent. But to give him the benefit of the doubt, the plan could include all countries and their later independence would enable them to enter into the community of nations.

White conceded that the plan would impinge on certain aspects of sovereignty because the IMF would be able to block changes in exchange rates -- a function that historically was done by states themselves, although in other ways the IMF would work to enhance the power of

---

[9]Block, op. cit., p. 44.

political changes to improve their economies have been frustrated by the individual investor moving his money to other countries.

> France, in particular, suffered from massive capital flight during the period of the Popular Front with the result that the government was forced to abandon some of its economic and social reforms.[10]

For his plan to work there would have to be cooperation between national governments, and in the case of France, the Popular Front's policies would be adhered to because of certain conditions in the White Plan:

> (a) Not to accept or permit deposits or investments from any member country except with the permission of the government of that country, and
>
> (b) To make available to the governments of any member country at its request all property in form of deposits, investments, securities of the nationals of that member country.[11]

White was willing to sacrifice the disgruntlement of the five to ten percent of wealthy persons in these countries that had enough wealth to invest abroad. (No wonder White was scrutinized under the McCarthy communist scare.)

---

[10]Colin Wolfe, <u>The French Franc Between the Wars</u> (New York: Columbia University Press, 1951), pp. 147-170.

[11]Keith J. Horsefield, <u>The International Monetary Fund: 1945-1965</u> (Washington, D.C.: International Monetary Fund, 1969), p. 44. This would mean that nationals of a country undergoing structural changes under the auspices of the IMF, would not be able to transfer funds to other countries, thereby thwarting the efforts of reconstruction.

The Keynes Plan

The Keynes Plan, on the other hand, called for a Clearing Union:

> It was essentially an overdraft facility that would grant credit to deficit countries automatically when they ran payments deficits. Payments deficits or surpluses would appear as debits or credits in the books of the clearing union. The clearing union would be able to provide a total of $26 billion in credit, but each country would have a maximum credit quota determined on the basis of its share of international trade. The large quantity of available credit meant there was little pressure for adjustment on deficit countries. The fact that surplus countries would simply accumulate credit balances rather than real assets, and that they would be required to pay interest on credit balances above a certain size, meant that there would be strong pressure for surplus countries to return to balance-of-payments equilibrium. In short, surplus countries would have to adjust by inflating their economies and by increasing their imports, while import countries would largely be free to pursue their own policies. The plan would give Britain freedom for domestic experimentation while assuring access to significant quantities of international credit. It would mean that even if the U.S. economy slipped into depression or ran a major export surplus, it would have little negative effect on the rest of the world economy.[12]

On the face of it, surplus countries would be at a disadvantage, because they would be penalized for a trading advantage and for oversaving. What has happened in the past is that in surplus countries there is the tendency towards inflation, with too much money chasing too little goods. Also in the past, countries tended to impose tariffs on trading partners to equalize trading. The most overriding fact, however, would be there should be equilibrium between national governments. In the past, countries that

---

[12]Block, p. 48.

made trading partners to have as equitable a world system as possible. Hence, both deficit and surplus countries should sacrifice in preserving such a system.

The Keynes Plan was biased to the extent that he favored Britain's interests of protection for deficit countries. Notwithstanding this, his plan had merit, because his Clearing Union would be acting as an overdraft facility.

It was unfortunate that neither the White nor Keynes plan was finally adopted, although it is widely acknowledged that White's plan laid the foundation for the IMF. The American Congress, led by Senator Taft, was opposed to the United States government investing large sums of money in an international organization. Furthermore, Roosevelt died in 1945 and Morgenthau and White were not retained by the Truman Administration. The IMF was therefore influenced by policy makers with limited international scope.

The United States was on its own, and bilateral arrangements took precedence over international ones. Simultaneously with the Bretton Woods agreement, the United States loaned Great Britain $3.75 billion outside of the IMF which had only $8.8 billion.[13] Also, she began the recovery of the broken down economies of Europe and Japan by bilateral agreements:

---

[13]Joan E. Spero, The Politics of International Economic Relations (New York: St. Martin's Press, 1981), pp. 35-36.

> The leading industrial economies have found that it is beneficial to coordinate balance-of-payments policies under a system that frowns upon parity changes. The IMF has provided a forum of discussions of policy problems, but the most effective cooperation has been forged at meetings outside the IMF umbrella between officials of the financially important countries.[14]

As a matter of fact, by 1950 the IMF had only used $.8 billion in international adjustments. The United States dollar had become the key currency.[15]

The Role of the United States

The United States, as a young world power, decided on political rather than economical solutions to the IMF's problem. Keynes advocated that the U.S. should contribute more than the $2.64 billion to the Fund. (See Table 2.1). The amount of funds in the IMF was adequate to meet the world's liquidity demands. As a consequence, the U.S. only delayed the international problem by its many bilateral arrangements in the loans it gave to other developed countries.

---

[14]Development Dialogue "Background Notes on the International Monetary Fund," p. 102.

[15]Ibid., p. 110.

Table 2.1

The quotas in the 1943 version of the Keynes Plan were as follows in millions of dollars:

Great Britain	4,978
United States	4,040
France	1,931
Germany	3,129
USSR	411

The rest of the world would contribute about another $10 billion giving it a grand total of about $26 billion dollars.[16]

> What the United States had not been willing to undertake within the framework of a broadly conceived international institution like the Keynesian Clearing Union, she did through her direct efforts to help other nations return to currency convertibility.[16]

She sought to dictate world stability through the IMF and herself. The consequences were grave:

> The outcome of the Bretton Woods system needed (1) far greater liquidity reserves than the Fund could provide, and was forced into shanghaing the U.S. dollar as international money; and (2) that the system had to weather repeated international monetary crises connected with the relatively rare but substantial parvalue changes.[17]

What Keynes had feared came to pass, similar to the pound in the 1930s, the U.S. dollar became overvalued. It became an international currency. In acquiring functions of

---

[16]George Halm, A Guide to International Monetary Reform (Lexington: Lexington Press, 1975), p. 25.

[17]Gerald Meir, op. cit., p. 143.

an international currency, the dollar reaped certain benefits, but also some burdens. Although the country had surpluses in the commodity trade, there was a continuing payment deficit owing to her role as key-currency country.[18] The United States failed to take her cue from history by responding similarly as Britain did when the other European countries became industrialized:

> This country was no longer the sole practical supplier. Again, all that was happening was that the world was growing up around the U.K. Other countries, having industrialized themselves, were contributing their quota to the ever expanding total of world trade.[19]

Paradoxically, the countries that the United States had helped in rebuilding their economies began to have excessive amounts of dollars. The United States decided that it would not exchange the dollars for gold. The United States' expenditures, especially her military spending and competition against the Soviets in the giving of aid, resulted in an abundance of U.S. dollars in the other developed countries.[20] The U.S. production was high and there was confidence in the American dollar and few countries demanded gold for dollars.

Naturally, over time the surplus countries became worried because their surpluses were used by the United States to finance her deficits. She had not cut down on her military spending; instead she just printed more money.

---

[18] Ibid., p. 144.

[19] Gerald Munser, p. 24.

[20] Joan Spero, p. 149.

However favorable it appeared to the United States, she had to depend on the continued faith of the other developed countries placed in the United States dollar. Further, the principle and spirit of Bretton Woods was breached by the predominance of one currency.

The developing countries, on becoming independent, realized that they were not on parity with the developed countries in the international organizations. The United States, under the Marshall Plan, had given aid from 1948 to 1952 to Western Europe to the tune of $17 billion while in the same period the IMF disbursement was $.85 billion.[21] This amount went largely to peripheral Northern countries. The newly independent countries, it was thought by the United States in particular, would be able to grow from the export of their primary products and by their own efforts. The era of the Cold War saw a change in U.S. policy. The Soviets were financing revolutionary movements around the world and the U.S thought it fit to oppose Moscow's designs wherever possible.[22]

---

[21]Ismail-Sabri Abdalla, The Inadequacy and Loss of the Legitimacy of the International Monetary Fund (Development Dialogue: 1980), 2, p. 44 (The IMF activities were limited until the mid 1960s; see Appendix F).

[22]Jennifer Whitaker, Africa and the United States: Vital Interests (New York: New York University Press, 1974), pp. 12-14.

The Third World Response

The IMF was not the vehicle used to disburse the aid and in most cases the aid was tied to the donor countries, resulting in more benefits to the donor than to the recipient.[23] The LDCs responded by trying to isolate themselves from the international trading system. Throughout the decade of the 50s, they tried import substitution. There was some industrialization, but by the early sixties, their strategy was clearly a failure. The crude policies of protection under import subsititution worked for the early stages of economic growth, but the lack of competition at the later stages, produced barriers to subsequent growth.[24]

In fact, import substitition produced high-priced goods, capital intensive machinery and had little or no impact on employment. Even more damaging, it stifled agricultural output by placing most of the foreign exchange on parts and equipment. There was little investment in agriculture, the industries were concentrated in the cities, and a dual economy appeared. Characterized by income inequalities, the industries in the city were paying high wages while there was low agricultural income in the

---

[23]Goran Ohlin, Foreign Aid Policies Reconsidered (Paris: Organization for Economic Cooperation and Development, 1966), p. 16. Also Teresa Hayter, Aid as Imperialism.

[24]John H. Power, "Import Substitution as an Industrialization Strategy," The Phillippine Economic Journal, 5 (1966), pp 169-174.

country.[25] This resulted in the social problem of people flocking to the cities hoping for employment in these new industries. These new cities could not cope with the urban sprawl caused by the new mass migration.

There had to be a new strategy for the '60s. The Southern strategy began in earnest in 1961 at the Belgrade Conference of non-aligned governments under the tutelage of President Tito of Yugoslavia. The South formed a united front to voice their concern about trade management in the international trading system. The United Nations was the arena they decided was best suited to air their demands. The growing unity and majority of the South in the General Assembly forced the North, through the operations of United Nations Economic and Social Council (ECOSOC) in 1962, to make plans to form the United Nations Conference on Trade and Development, which convened in Geneva in 1964.[26]

Since 1964, the developing countries have become more vociferous in their demands. They began to question the International Monetary System which was controlled by the United States. The U.S. dollar had become the main currency and continued American deficits caused inflationary consequences among her major trading partners. The problem termed the Triffin Dilemma resulted from the fact that there

---

[25]Joan Spero, p. 186.

[26]Charles L. Robertson, "The Creation of UNCTAD" in Robert W. Cox, (ed.) International Organization: World Politics (London: Macmillan, 1969), pp. 258-274.

were too many U.S. dollars around the world.[27] The contradiction was that if the U.S. took action to stem the dollar outflow there would be a critical shortage of international liquidity which would have worldwide repercussions. Many of the major countries started to switch to gold and the prospects of a depleted Fort Knox became real. The U.S. reserves fell from $24.4 billion in 1948 to $15.4 billion in 1964. Belatedly, the U.S. found out that the organization formed to oversee such an emergency was of little help because its reserves were too inadequate to meet the great demand. From 1959 to 1970 IMF quotas were increased by 50 percent.[28]

The IMF could not handle the precarious situation. During Kennedy's presidency, with a more outward looking international posture, some changes were initiated. He began focusing on the more powerful European Common Market and its inward looking trading pattern. This threatened to decrease U.S. trade even further. The United States wanted Britain to join the Common Market because she had historically favored liberal trading relations. But the French, especially, and the Germans were opposed to Britain's entry because they realized more liberal trading would weaken their advantage. The competition of the developed European countries was having a telling effect on

---

[27]Robert Triffin, Gold and the Dollar Crisis (New Haven: Yale University Press, 1961), p. 12.

[28]See Appendix F.

U.S. trade and her goods were becoming less competitive in the world market. In implementing his policy, Kennedy had a two-pronged attack: First, the United States belief in trading relations rather than a truly International Monetary Fund got new life in the Kennedy Rounds General Agreement of Trade and Tariff.[29] In 1961-62 the Dillon Round was negotiated, but it had adverse limitations because of existing U.S. legislation; tariff barriers could not be lowered more than twenty percent. What resulted was a complicated, slow process of item-by-item reduction. The Kennedy administration was not satisfied with this slow process, so legislation was enacted to rectify the situation. In order for President Kennedy to show good faith to the EEC, he had to lower the tariff barriers the Congress had imposed on their main trading partners. The result was the Trade Expansion Act of 1962 under which the U.S. could cut tariffs up to fifty percent. Kennedy, in so doing, wanted to invite the EEC to adopt more liberal trading arrangements, and also to help Britain join the EEC.[30]

The other attack by the Kennedy administration was the effort of Under Secretary of State Robert Roosa. By 1961, the U.S. insistence that the gold price remain at $35 per ounce came under increasing pressure. Bilateral

---

[29]Fred Block, p. 175.

[30]Bela Belessa, Trade Liberalization Among Industrial Countries (New York: Praeger, 1967), pp. 30-31.

arrangements were made with Britain, Switzerland, and the European Common Market to furnish half of the gold needed to keep the price at $35 per ounce. However, private speculators began buying gold, thus pushing up the demand. The United States, to counter that trend, had to sell gold on the private market which further depleted the U.S. reserves of gold at Fort Knox. At the same time, Roosa realized that if the dollar was to remain the international currency, it had to get relief. The United States had, in fact, become a deficit country like Britain, which had consistently called for more international liquidity since the days of Bretton Woods.[31] The United States also became convinced that there was a need for more international liquidity. They proposed, not an expansion of quotas, but additional borrowing facilities from member countries.[32]

But it was not enough to stop the U.S. deficit, at the same time the British pound came under pressure. From 1964 to 1967 the United States did as much as she could to support the pound, knowing that if it were devalued, the dollar would be next. The United States, therefore, had to fight for relief of the dollar, and the most effective way was to expand the IMF. The U.S. sought to take pressure off the U.S. dollar in an expanded IMF that would give some relief to the inadequate international liquidity problem.

---

[31]Block, p. 178.

[32]Keith J. Horsefield, p. 485.

> These changes in exchange rates and gold market arrangements mean that the rules of the International Monetary Fund are obsolete. The Fund remains moderately active (international institutions never die, even though their original justifications do), but the Fund's articles and rules are now largely irrelevant. Foreign centered banks hold a larger volume of dollar assets than they prefer. The usefulness of gold holdings of foreign central banks in monetary settlements is questionable. Perhaps more importantly, the consensus among Atlantic nations on how the international system should operate has been shattered.[33]

It became painfully clear to the United States and the Atlantic powers that the IMF, with its dollar-gold standard, was incapable of making the arrangements for integrating separate monetary systems. But they were not sufficiently far-sighted to adopt the Keynesian Plan and Keynes' bancor idea. Instead, a limited Special Drawing Rights (SDRs) was created.

The shortage of international liquidity meant that there had to be some accomodation to relieve the world monetary system. The SDRs were thought to be the solution to the problem but still had the old notion that a currency should be backed by some standardized measure of worth. In the old days (British system) it was gold; under the Bretton Woods System it was the combination of gold and the U.S. dollar. At present it is the combination (basket) of sixteen currencies from the leading industrial countries along with those from OPEC countries. It should be an international central bank run by a representative body of administrators from developed, developing and oil countries

---

[33]Robert Aliber, pp. 9-10.

where funds are disbursed according to needs and not necessarily the ability to repay.

The DCs would have to set aside special funds within the IMF to alleviate the plight of the poorest countries. The goals of the newly industrialized countries can be generalized to full employment, an educational system that impacts on every person within the society, and the lessening of inequality. However some poor countries have basic, primary concerns such as food to stop mass starvation, water for its many vital functions, roads to mobilize the society and other basic infrastructure to bring them into the twentieth century.

> In this sense we continue to make common cause with the Arusha Initative as an appeal in favour of a U.N. conference for solving the questions of international finance and monetary affairs. We believe that a new international finance order must serve two basic objectives. First, it must be capable of achieving monetary stability, restoring acceptable levels of employment and sustainable growth, and checking the present strong inflationary and stagflationary tendencies and policies in the world economy. Secondly, it must be supportive of a process of global development especially for the countries of the Third World which contain the majority of the world's poor.[34]

More specifically the most desperate of the LDCs should be helped by all the major world organizations including the IMF to upgrade these poorest of the poor, about ten percent of the world population, by starting them

---

[34]Samuel Lichtensztejn, "The IMF - Developing Countries: Conditionalilty and Strategy" in John Williamson, op. cit., p. 222.

off on the basics. Loans could become aid if the ability to pay does not materalize as quickly as anticipated.

The impulse of the United Nations to alleviate the problem through the International Development Association (IDA) and United Nations Industiral Development Organization (UNIDO) is far from adequate. These organizations should not be eliminated, but work in conjunction with the IMF in ways to best solve the problems of the poorest and eventually help create an equitable world system.

Efforts to Change IMF Structure

Adjustment 1: The SDR

> In the field of international liquidity, the Special Drawing Account constitutes a major historical development, as it provides for a deliberate managing of the level of world reserves and the use of their new component: SDRs. Its establishment has rightly been called the most important event in monetary affairs since Bretton Woods.[35]

The inadequacy of the system showed from the early 1950s, and in 1961 the Group of Ten had to lend additional amounts of their currencies to enable the IMF to cope when supplementary sources were needed.[36] This stop-gap measure did not last and in 1968 the following applied:

> The plan to create SDRs was the result of a lengthy discussion. The problem was how international liquidity reserves could be consciously created and could, to that extent, become independent of the haphazardness which characterized additions to monetary gold reserves and foreign-held dollar balances. Besides, many members of the Fund were dissatisfied with the strictly conditional nature of the traditional drawing rights in the credit

---

[35]George Halm, p. 35.

[36]IMF Review, 1945-1970, p. 42.

> branches, otherwise, the whole problem of additions to liquidity reserves might have been solved simply by speeding up the process of quota increases and making it independent of additional gold contributions.[37]

What the international monetary system wanted was a truly central bank with a responsible manager similar to that which exists in most major financially viable countries.

> The liquidation of the fiction of the central debtor of money in circulation is a genuine breakthrough in monetary thinking. In the nation, no recipient, holder, or spender of money ever thinks of the existence of a legal debtor who issued the money and continues to 'owe' something to the holder. The only thing in the mind of the recipient and holder of money does not expect to 'collect' from the issuing agency, but only to pass on the money to those who have something to sell. The holder of special rights, likewise, will not collect from or draw on the Fund or its Special Drawing Account. Instead, the participating country will pass its SDRs on to other participants in payment for convertible currencies. In other words, the SDRs are international money accepted by the participating monetary authorities in payment for various convertible national currencies. Since only the acceptability of SDRs has to be secured, and is in fact secured by the obiligations undertaken by the participants, there is no need for any obligation or liability to be assumed by the agency that issues or allocates them.[38]

The SDRs, as a move to alleviate the precarious monetary system, were limited because they were still tied to the old system of dollar-gold standard and its shortcomings, namely the deflationary bias of gold and the inflationary bias of the dollar. Under the old Keynesian concept, bancor would act as a medium of exchange from the central bank to its component national bank members.[39]

---

[37]Ibid., p. 22.

[38]Fritz Machlup, Remaking the International Monetary System (Baltimore: Johns Hopkins Press, 1968), p. 34.

[39]Wilbur Monroe, International Monetary Reconstruction (New York: Lexington Books, 1974), p. 73.

The situation with the SDRs did not change international trade drastically and the dollar continued to be the key currency. As the amount of dollars in the reserves of other countries continued to increase, the price of gold on the world market began to climb putting added pressure on the dollar.

Reform of the system was proposed during 1967-68, but there was no action taken. There were various proposals for changing the system. The Triffin Plan, resembling the Keynesian Plan, suggested that there be an international central bank empowered to create credit for use by the national central banks. The Bernstein Plan proposed that all countries place their reserve assests, gold, foreign exchange and SDRs in a deposit account at the Fund, called the Reserve Settlement Account, which would work basically like a Clearing Union. The Despres Plan proposed a dollar standard, which would make dollars rather than the gold-dollar the standard for world reserves, making the U.S. the world banker.[40] These plans, whatever their merits and demerits, were not implemented because the U.S. was resistant to change. The nagging problem of inadequate international reserves remained:

> There may be a sufficiency or even an oversupply of reserve currencies, but there is a shortage of internationally created and managed reserve assets. The SDR, which is supposed to be the centerpiece of the reformed international monetary system, nowdays has quite a sorry record for a centerpiece. The

---

[40]Wilbur Monroe, p. 73.

> deficiencies in this situation are quite obvious. Reserve currencies are national currencies, and national currencies are used quite legitimately for national purposes. But these do not necessarily coincide with international needs, so that there is a shortage of the right kind of international liquidity.[41]

The result is that countries that have had a surplus over the years have no shortage of national reserves, but the very fact that they have accumulated these vast reserves indicates that there is a shortage in the system as a whole. Not only were the LDCs faced with the problem, but so were some industrial countries like Britain and Italy. The lack of adequate international reserves has tended to limit the amount of funds available for general development the world over.

The position of the United States worsened. She had used her political might to limit the exchange of foreign American dollars for gold because the reserves in Fort Knox were decreasing alarmingly. The United States had reserves of $26 billion in 1940; by 1971 they had dropped to $13.2 billion (See Table 2.2). A political decision had to be made in light of the trading deficit, especially in the cases of Japan and West Germany: "Thus the Bretton Woods system has ceased to function. It will take many years for the Special Drawing Rights to become a sufficient substitute."[42] It only addresses a small fraction of the

---

[41]Norman Miller, <u>International Reserves, Exchange Rates, and Developing Country Finance</u> (New York: Lexington Books, 1962), p. 12.

[42]Ibid., p. 114.

world's need and its convertibility is too limited.

The inevitable happened; President Nixon had to take action forced by "the pressure of events rather than collective judgement -- not the collective judgement of another Bretton Woods Conference." The U.S. withdrew her commitment of gold convertibility and ceased the selling of gold at $35 an ounce.[43] In effect she had ushered in the era of floating exchange rates in contravention to the Bretton Woods agreement.

---

[43]Ibid., p. 115.

TABLE 2.2

SIZE, SOURCES AND DISTRIBUTION OF WORLD MONETARY RESERVES, 1913-1978 (in billions of U.S. dollars of SDRs)

End of	1913	1937	1949	1959	1969	1972	1975	1978
Sources								
World gold in billions of SDRs at 35 SDRs per ounce throughout	4.1	25.3	34.4	39.9	40.8	41.2	41.1	40.1
Credit in billions of SDRs	0.7	2.4	11.1	17.0	37.9	105.3	152.7	239.3
Foreign exchange	0.7	2.4	11.0	16.1	32.0	95.9	136.9	220.8
SDR allocations and IMF credits			0.2	0.9	5.9	9.4	15.8	18.5
SDR allocations			n/a	n/a	n/a	9.3	9.3	9.3
IMF credits	n/a	n/a	0.2	0.9	5.9	0.1	6.5	9.2
Impact of gold-dollar fluctuations			-0.3	0.1	0.2	44.2	149.6	291.5
On gold valuation			-0.3	0.1	0.2	35.2	123.6	219.0
Gold and SDR rate			-0.3	0.1	0.2	29.2	99.6	158.8
SDR-dollar rate			n/a	n/a	n/a	6.0	24.0	60.2
On credit valuation (SDR-dollar rate only)			n/a	n/a	n/a	9.0	26.0	72.5
Total reserves, in billions of dollars	4.8	27.7	45.2	57.0	78.9	190.7	343.4	576.9
Distribution								
Total reserves in billions of SDRs	4.8	27.7	45.2	57.0	78.7	146.6	193.8	279.4

TABLE 2.2 (continued)

End of	1913	1937	1949	1959	1969	1972	1975	1978
Sources								
United States	1.3	12.8	26.0	21.0	17.0	12.1	13.6	15.0
Other Countries	3.5	14.9	19.5	35.5	61.7	134.4	180.2	264.4
OPEC members			1.2	2.5	4.1	10.0	48.3	46.2
Other countries			18.3	32.9	57.6	124.4	131.9	218.2
Other industrialized			11.0	26.3	45.6	104.7	105.9	165.4
Other Third World			7.3	6.6	12.0	19.7	26.0	52.8

n/a = not applicale

SOURCE: Robert Triffin, "The Future of the International Monetary System," paper delivered on October 31, 1979 at a conference of the Global Interdependence Center, Philadelphia, Pennsylvania.

The IMF had at that time the opportunity to implement an international currency by utilizing a Clearing Union; instead it continued to put its faith in the limited SDRs that it had created. The IMF responded by converting its accounts into SDRs.[44]

In December of 1971 the Group of Ten made an agreement without consultation of the developing countries. They decided on a general realignment of parities, which in effect meant a devaluation of the American Dollar from seven and one-half percent with regards to the weakest Group of Ten currency, the Italian lira, to 16.9 percent to the stongest, the Japanese yen.[45] Detached from any standard, the dollar was again devalued just over a year later (February 1973). But this was a mere stop-gap measure and this system broke down in March 1973. The floating rates became the order of the day, effectively killing any vestige of the old Bretton Woods system.[46] The devaluation of the dollar meant that American goods were more competitive in the international market.

It is interesting to note that these setbacks to the Bretton Woods Agreement and the International Monetary System came before the OPEC oil price increase. It has become the custom of developed countries' analysts to blame

---

[44]Ismail-Sabri Abdalla, op, cit., p. 46.

[45]IMF Annual Report, 1974, p. 111.

[46]Abdalla, p. 46.

the world monetary system and the Third World indebtness on the OPEC oil price increase. But the system began decaying in the 60's and came to a crisis in 1971. By then the U.S. realized that Adjustment 1 was not sufficient and there was a need for another adjustment because the abandonment of par values in terms of gold and the sale of IMF gold stocks could not be accomodated without amending IMF articles of agreement which forbid their sale.[47]

Adjustment 2

It appears that there was a consensus on the need for real international cooperation. "In June 1974 the IMF Committee on Reform of the International Monetary System, the 'so-called' Committee of Twenty, published an Outline of Reform" (Appendix II).[48] The ideas held in the provisions of the second amendment permeate the articles of agreement entirely and were not an addition or treaty by themselves, similar to the first amendment's creation of SDRs. They insisted, however, "on stable but adjustable par values" similar to the old Bretton Woods accord -- "old concepts die hard." It was hoped that a Keynes type Plan might yet emerge with improved modifications for the future. The inclusion of the developing countries in the Committee of Twenty shows more awareness of them in the world.[49]

---

[47]Ibid., p. 47

[48]IMF Report, 1974, p. 67. The second amendment basically approves the floating exchange rates as compared to the fixed rates of the old system.

[49]Mahbub Ul Haq, p. 190.

If the nation-states of the world are going to improve and develop, they need to have a just economic order, similar to that proposed in the ongoing North/South dialogue which seeks to improve trading agreements between the developed and developing countries. The IMF would be one such international organization to move these nations closer to that goal.

> The LDCs are eager to establish a reformed international monetary system that will 'promote an increasing net flow of real resources to developing countries.' For this reason, the possibility of establishing a link between development assistance and SDR allocation in the context of the reform has closely been examined.[50]

The developed states recognized that there had to be some change and the Group of Ten proposed an increase in quotas under a floating exchange rate. But in order to do so they had to amend the Articles of Agreement. Under the old agreement such an article required 85 percent of the vote. France, Britain and West Germany combined had 16.7 percent. The United States had 20 percent. The significance of the eighty-five percent requirement gave the U.S. veto power. The eight European monetary participants backed the United States' proposal for amendments which also gave them veto powers of 18.7 percent.[51] Therefore France, Britain and West Germany, combined also had veto power. The U.S. by now had completely changed its stand and advocated increased international liquidity to help the failing dollar.

---

[50]Ibid., p. 192.

[51]"Background Notes on the International Monetary Fund," <u>Development Dialogue</u> 1980: 2, p. 100.

The U.S. sought Third World support by offering them a carrot. It was proposed that the IMF sell some of its gold reserves; half to member countries at $35 an ounce, and half at a profit on the world market. Thirty percent or so of the proceeds would be divided up and given to the Third World countries. The balance was to be paid into a Trust Fund managed by the IMF, providing medium-term loans at very low rates of interest to low income countries to help in their balance-of-payments crisis.[52]

The U.S. strategy succeeded. The Third World countries adopted the recommendations of the Committe of Twenty to amend the Articles of Agreement introducing exchange rates. The Third World got $.8 billion dollars of gold profits shared among them for voting with the developed countries. By mid-1979, an additional $1.7 billion was lent to them. The U.S. had used its carrot of the gold sales, but attached to it was the stick of continued high conditionality. This time the LCDs were advocating a change in loan policy to permit lending money for longer periods.

This meant that the LDCs, in the final analysis, had to link up to a key-currency. Political sovereignty was encroached as the LDCs' trading patterns became more dependent on the particular key-currency. Although this might well be a better system, the thought of any type of over-dependency on the metropolitan powers is an alarming prospect for LDCs. Yet, some sort of international faith

---

[52]Abdalla, p. 47.

and good will is necessary for any system to work.[53]

The LDCs have to be aware that it is not mere coincidence that since OPEC has had increased political and economical power, that they are more respected in international forums. The Committee of Twenty formed to review the IMF is one such new force. Yet, with all of this new power changes are few and tedious. The North/South Dialogue has come to a virtual halt. Nevertheless, the small gains are appreciated. In 1978, "the second amendment had brought into the effect the provisions of a new Article IV which stressed the objective of a continuing development of the orderly underlying conditions that are necessary for financial stability."[54] Also it made more explicit the responsiblities of member countries as to their exchange arrangements. More importantly, SDRs are no longer expressed in gold, since 1978 and the method of valuation of the SDR is determined by an eighty-five percent majority. They are now expressed by the currencies of the sixteen member countries with the largest export of goods and services for the period 1973-76 (See Table 2.3).

Ever so slowly the IMF is moving toward becoming a clearing union and therefore, an effective international organization. The LDCs cannot wait, however, because there are pressing problems now and they continue to appeal to the developed countries to help immediately before the Malthusian day of doom arrives.

---

[53]Wilbur Monroe, pp. 130-131.

[54]IMF Report, 1978, p. 55.

TABLE 2.3

IMF SDR VALUES

Currency	SDR Value	Weight
U.S. Dollar	0.40	33 (33)
Deutsche Mark	0.32	12.5 (12.5)
Japanese Yen	21.00	7.5 (7.5)
French Franc	0.42	7.5 (7.5)
Pound Sterling	0.05	7.5 (7.5)
Italian Lira	52.00	5 (6)
Netherland Guilder	0.14	5 (4.5)
Canadian Dollar	0.07	5 (6)
Belgian Franc	1.60	4 (3.5)
Saudi Arabian Riyal	0.13	3
Swedish Krona	0.11	2 (2.5)
Iranian Rial	1.7	2
Australian Dollar	0.017	1.5 (1.5)
Spanish Peseta	1.50	1.5 (1.5)
Norwegian Krone	0.10	1.5 (1.5)
Austrian Schilling	0.28	1.5 (1)

Source: IMF Report, 1978.

Adjustment 3

These amounts (see Table 2.3) were determined on June 30, 1978 on the basis of the average exchange rates for the three-month period ending on June 30, 1978. The share of each of these currencies is the value of the SDR corresponded on June 30, 1978 to the weights specified for each of them by the relative importance of the issuing country's share in world exports of goods and services, except that the U.S. dollar was given a weight of 33% of the total to reflect both its commercial and financial importance.[55]

Ibid., pp. 56-57.

The Third World's Appeal

Even if SDRs were not exactly what the LDCs wanted, it was a step in the right direction. The other systems, gold or gold-dollar system, depended too much on unilateral arrangements, while SDRs are created by the International Monetary System. What the LDCs advocate is a commodity based system that would eliminate the present deficiencies in SDRs in that:

1. It should not continue to be a 'cocktail' of currencies.
2. It should have solid backing, redeemability and more automatic forms of issue limitation.
3. It should be equitably distributed and be an attractive enough asset to be held by countries in preference to other assets.
4. It should be issued by the world central bank whose establishment has been proposed.[56]

What they proposed instead was a commodity standard which, in the light of present day thinking, is not as revolutionary as first proposed. The LDCs, especially the Latin American countries, met in Venezuela to decide to default on their debts, because of growing inability to pay under the stringent IMF terms. These countries, having tried import substitution, have found that their finished goods come under tariff barriers and a general worsening of terms of trade between developed and developing countries. They are also looking into the possibility of setting up

---

[56]Justinian F. Rweyemamu, "Restructuring the International Monetary System," Development Dialogue (Sweden: Dag Hammarskjold Centre, 1980), p. 80.

their own international central bank.[57] It is therefore in the best interests of all the parties concerned to arrive at a reasonable compromise.

The commodity standard does not seem so farfetched now because it involves a revamping of the system. In competing with the basket of currencies, the basket of commodities would involve more Third World participation rather than the developed countries' continued dominance.

> A "commodity unit" - a basket of commodities which are basic, storable and in common use - would be established by international treaty. This could be done in the framework of a strengthened and greatly expanded Common Fund, which would have to be brought under the control of the world central bank.
>
> The relative amounts of the commodities included in the unit would be determined by their relative importance in international trade. The size of their unit would be such as to make it convenient for deposit and redemption.
>
> The value of the new SDR would be defined in terms of the commodity unit, in the same way as the value of the present SDR and national currencies used to be defined in terms of gold. The only difference is that the new SDR would be based on a bundle of commodities rather than on just one.
>
> The world central bank would issue legal tender SDRs against the deposits of the warehouse receipts, such as are currently dealt in on commodity exchanges, for commodities constituting one or more commodity units. Conversely, the bank would surrender warehouse receipts in exchange for an equivalent amount of SDRs.
>
> In effect, the new SDR would be a warehouse certificate having all the desirable characteristics of gold certificate and gold-secured money-solid backing redeemability limitation of issue. These are important qualities lacking in the gold exchange system.[58]

---

[57] Harry Anderson, "Is the IMF Going Broke?" Newsweek, October 18, 1983, p. 73.

[58] Justinian F. Rweyemamu, op. cit., pp. 80-81.

According to Luigi Spavanta the new proposals had several problems. The setting up of a world bank is idealistic at this point. The concept of symmetry is also very difficult, and the working out of what commodities to be used in the commodity-backed SDR will be difficult to negotiate.[59]

The IMF and its members are concerned about the several problems of the international system. In the early 1950's the United States was the dominant force, but by the early 1960s the revived economies of Europe and Japan returned to convertibility. At the same time the proliferation of Third World countries occurred.

The IMF should have been utilized to realize these new demands, the need for more international liquidity, and the setting up of precedents for stability of exchange rates. The U.S. response can be characterized by three phases: 1958 to 1963, Atlanticism, where the U.S. tried to work out agreements with the European countries of the Atlantic Alliance, to no avail because differing self-interest opposed consensus. According to Block, the period from 1964 to 1968, can be known as "Semisophisticated Delay" where there were changes in the IMF: increased liquidity, the issuing of Special Drawing Rights, and limited cooperation with other developed countries not to demand gold for dollars. In some cases joint gold purchases were made with other DCS. The chronic crisis was from 1968 to

---

[59]Luigi Spaventa, "Comments on the Long-term Proposals for Reconstructing the International Monetary System" <u>Development Dialogue</u>, 1980, pp. 92-94.

1975 when the United States abandoned the international "rules of the game" for national self-interest. As the problem of excessive dollars abroad increased, the treasury of gold in Fort Knox could be literally wiped out. The U.S unilaterally rejected the dollar being backed by gold at thirty-five dollars an ounce. In addition, a floating exchange rate became the order of the day and the unheard of Republican decision of domestic wage and price controls was introduced to prove American seriousness in solving domestic inflation.[60]

At the same time the LDCs' problems had become endemic and the rising tide of expectations made monetary austere measures at home unpopular. They sought relief from the international arena, and demanded more for their exports and increased industrialization. Matters came to a head with the formation of OPEC in the early 1970s, underlining the interdependence of the World and the dependence on oil. The flood gate of demands was opened.

During all of this the IMF tried to reform, but these were piecemeal measures, and the LDCs proposed a commodity standard alternative. The disparity between DCs and LDCs continued.

OPEC's Response

The IMF has certain changes that they have been trying to adopt over the years, but they are insufficient

---

[60]Fred Block, op. cit., p. 91.

and do not address the needs for a long term or mid-term loan arrangement that the LDCs require. Many LDCs wait too long to adjust their monetary problems because the IMF is perceived to be unsuitable to their needs.

> The IMF had been attacked for its overemphasis on demand management, blunt monetary-policy instruments and shock treatment to reduce or eliminate inflation and balance of payments disequilbria; its relative neglect of supply side policies longer-term development, and income distribution, and its traditional aversion to controls, selective policy instruments and gradualist approaches.[61]

The IMF has not been totally oblivious to these problems. There are certain guidelines that the IMF has been studying to relieve or solve the problem.

> The Executive Board adopted a set of guidelines providing, among other things, for the Fund to pay due regard to the domestic social and political objectives, the economic priorities and the circumstances of members including the cause of payments problem . . .[62]

These guidelines are slow to be realized, and in the meantime the problems of the LDCs are getting worse.

The great opportunity was lost however in the formative years of the oil increases to solve the increasing debt problem. There were six proposals to solve the problem:

1. The United States "safety net" of "financial solidarity" put forth by Secretary of State Kissinger and Treasury Secretary William Simon in November, 1974.

---

[61]G. K. Helleiner, "The IMF and Africa in the 1980's" (Princeton University Series, New Jersey No. 152 July 1981), p. 1.

[62]Sidney Dell, "On Being Grandmotherly: The Evolution of IMF Conditionality" (Princeton University Series No. 144 October 1981), p. 26.

2. The U.S. Trust Fund Plan proposed during the same year.

3. An International Monetary Fund Oil Facility, presented in January 1974 by Johannes Wittereen then Managing Director of the IMF.

4. A plan proposed initially by Emile Van Lennep, the Secretary General of OECD, in November 1974.

5. The Kleinman Plan, a privately initiated proposal originally presented in February 1974 by David T. Kleinman, professor of Finance at Fordham University, to the Central Bank of Venezuela.

6. Another privately initiated recycling proposal published in Foreign Affairs January 1975. co-authored by Khodadad Farmanfarmaian of Iran, Armin Gutowski of West Germany, Saburo Okita of Japan, and Robert V. Roosa and Carroll L. Wilson of the United States.[63]

Plans 1, 2, and 4 represent continued dominance of the Western States and how to stop or accomodate OPEC increases. Plan 3 is a compromise of LDCs and DCs and Plans 5 and 6 were for OPEC assistance outside of the IMF and IBRD. We will examine Plan 3, the only one that was implemented, and which combined IMF and OPEC efforts to resolve the mounting debt problem (see Table 2.5).

The Oil Facility Bill in SDRs was proposed in 1974 to give relief to the LDCs.

---

[63]Nazli Choucri and Vincent Ferraro, International Politics of Energy Interdependence (Lexington: Lexington Books, 1976), pp. 66-74.

TABLE 2.4

LENDER TO THE 1975 OIL FACILITY IN SDRs

LENDER	AMOUNT	PERCENT OF TABLE
Austrian National Bank	50,000,000	1.74
National Bank of Belgium	100,000,000	3.49
Deutsche Bundes Bank	300,000,000	10.48
Kingdom of the Netherlands	200,000,000	6.99
Bank of Norway	50,000,000	1.74
Swiss National Bank	150,000,000	5.24
Total Non OPEC	850,000,000	29.72
OPEC		
Central Bank of Iran	400,000,000	1.43
Central Bank of Kuwait	200,000,000	6.99
Government of Nigeria	200,000,000	6.99
Saudi Arabia Monetary Agency	1,000,000,000	34.96
Central Bank of Venezuela	200,000,000	6.99
Total OPEC	2,000,000,000	70.27
Total		

International Monetary Fund, IMF Survey, No. 42, (June 23, 1975), p. 177.

All countries that were adversely affected by the oil price increases could apply. But the funds were not enough and they were under the same onerous IMF conditions that they had before.

OPEC not only made these funds available; additional loans were made available bilaterally.

> The IMF reports $2.54 billion in official Development Assistance. but also reports total disbursements of the oil-exporting countries in 1974 as totaling $5.6 billion. These totals were not enough and the IMF should have insisted that the DCs contribute more in a crisis situation.[64]

Therefore OPEC realized that they had an obligation to try and relieve the debt problem of the LDCs, but the IMF, a more able organization to oversee the problem, did less.

Clearly the DCs were affected by the oil prices, but the LDCs were more dependent on food and fertilizer, an oil derivative further affected by inflation in the DCs. which made a bad situation even worse.

One can deduce that if the IMF were geared for Third World development, it would have addressed the problem then, because the situation could only worsen in the future. That worsened future has indeed come to pass, reflected in the mammoth debt of LDCs.

There are many LDCs that were not satisfied with the OPEC response to their problems. But OPEC was beset with its own problems. Not all the countries of OPEC produced vast quantities of oil and only a few had small populations.

---

[64]Ibid., p. 68.

This caused tensions within OPEC itself and were it not for the dominance and leadership of Saudi Arabia OPEC would have floundered because of internal conflicts. Furthermore OPEC is still not its own master.

> Clearly control over the final price of oil - the amount paid by individual consumers - is not exclusively in the hands of the oil producing countries. Instead it is shared among OPEC, the oil companies and the governments of consuming nations.[65]

Leaders like Manley and Nyerere were aware of these problems and pledged allegiance in the hope that in the future LDCs alliance could be worked out. It was also important that the LDCs show resistance towards the present world economic system, although this was done at great sacrifice to many countries.

---

[65]Hendrik A. Houghakker, <u>The Price of World Oil</u>, (Washington, D.C.: The American Enterprise Institute of Public Policy, 1975), p. 33.

CHAPTER III

A BRIEF POLITICAL AND ECONOMIC HISTORY OF JAMAICA AND THE MANLEY YEARS 1972-80

The history of Jamaica is one of human suffering and revolt. From the early 1500s to 1834 the country was primarily a British colonial possession based on slave labor and sugar production. The majority of these slaves were black and at Emancipation in 1838, the Jamaican society had two distinct types of people.

> Jamaica, as a society, was not only molded by the plantation economy, it was created by it . . . Although Jamaican society of the early nineteenth century was unified with peculiar single-mindedness in the business of producing sugar and coffee, the unity hardly penetrated beyond the common economic endeavor. Jamaicans were divided legally into the three casts: free whites, colored people with limited privileges, and Negro slaves. Of the three divisions, the white and colored people had something in common as the heirs of European culture as it existed in Jamaica. The Negroes stood apart as a separate group, not only because they were slaves, but because their cultural heritage was still largely African.[1]

The British were the colonial masters and had things very much their own way. But the island was not without United States influence. As early as the United States' War for Independence, the disruption of food supplies (flour, rice and especially salted cod) resulted in mass starvation

---

[1]Phillip D. Curtin, Two Jamaicas: The Role of Ideas in a Tropical Economy, 1830-1865 (New York: Greenwood Press, 1955), pp. 22-23.

of some 15,000 people in Jamaica.[2]

After emancipation, lands were apportioned according to colour and class. Many absentee land owners sold out their lands to local and pioneering whites. The larger tracts of land were given to these whites, smaller tracts to poor whites, and the hilly infertile lands to the blacks.[3]

By 1865 a series of continued drought and no relief from Britain exacerbated by the emancipation of blacks in the United States saw the outbreak of violence in the Morant Bay Rebellion. Encouraged by a mulatto newspaper man, William Gordon, in Kingston, who wrote about the deplorable conditions of blacks in the local press and led by Paul Bogle, a lay Baptist preacher, a group of blacks marched on the Morant Bay courthouse demanding better conditions.[4]

After repeated pleas to the governor to alleviate the dismal conditions, a fight broke out and several militia men were killed. The governor sent the colonial troops to quash the rebellion. Bogle was caught and along with Gordon hanged for treason.[5]

In addition the Jamaican people were punished further

---

[2]Eric Williams, p. 128

[3]Trevor Munroe and Don Robothman, Stuggles of the Jamaican People. (Kingston, Jamaica: Workers Liberation League, 1977), p. 36.

[4]F. R. Augier and S. C. Gordon, Sources of West Indian History (Kingston: Longmans Caribbean Limited, 1962), p. 178.

[5]Ibid., p. 179.

by downgrading the island from a self-governing colony to a limited crown colony. In the former, local persons were elected to the legislature and decisions were made in concert with the governor, both having the power of veto; in the latter, all power rested in the governor.[6] The succeeding governor, Peter Grant, consolidated the British reign of terror, by the brutal suppression of the Morant Bay Rebellion and creating a new police force (paramilitary) to quell any further disturbances.[7]

The 1870s saw a decline in sugar prices and a decrease in the island's economy. The start of construction of the Panama Canal saw the first mass migration of Jamaicans. When the canal project was stopped, some of the Jamaicans returned to poverty.[8]

A grave situation became even more desperate when Cuba, aided by the United States, became a major sugar producer. This resulted in larger scale production whose magnitude dwarfed the other West Indian production.[9]

The War of 1914-18 gave many West Indians the chance to travel to the metropole and many came back to implement changes. Trade union movements sprang up all over the region. At about this time Marcus Garvey was preaching race

---

[6]Samuel Hurwitz and Edith Hurwitz, Jamaica: A Historical Portrait (New York: Praeger, 1971), p. 148.

[7]Munroe and Robotham, p. 60.

[8]Eric Williams, p. 246.

[9]Ibid., p. 248.

pride in the United States. The accumulation of these factors laid the foundation for unrest in the 1930s.[10]

The unrest caused by trade union agitation started in Trinidad and Barbados (1937) and was brought to a head in Jamaica in 1938. The wages were low on the sugar estates which were owned by large British companies. The massive strike of 1938 forced Britain to reconsider her neglect of the West Indian island. The Moyne Commission was sent to appraise the situation and gain first hand information.[11]

What resulted from the massive strike? The acting governor promised $650,000 to assist in the purchasing of land for settlement by peasant farmers. More importantly, some political leaders emerged: A.G.S. Coombs in the sugar lands in the west; Norman Manley, a Kingston lawyer; and Alexander Bustamante of Kingston, a labor leader.[12] The latter two subsequently formed the present two leading political parties and their concomitant unions: The People's National Party and the National Worker's Union and the Jamaican Labor Party and The Bustamante Trade Union.

After the Moyne Commission report was published in

---

[10]Philip Sherlock, West Indian Nations (New York: St. Martin's Press, 1973), p. 71.

[11]West India Royal Commission Report 6607 (London: Great Britain H.M.S.O., 1945). p. 400. (The Moyne Commission)

[12]KWJ Post, "The Politics of Protest in Jamaica, 1938: Some Problems of Analysis Conceptualism" in Robin Cohen, Peter Gutkind and Phyllis Brazier, (eds.) Peasants and Proletarians: The Struggles of Third World Worker, (New York: Monthly Press Review, 1979), p. 200.

1944 and Jamaica got universal suffrage, Bustamante's party, the JLP, won the first election with a programme similar to Manley's party except for the self-government issue. But by 1949 the JLP also favored self-government.[13]

The PNP had no other alternative but to address its Fabian preference of socialism.

> Manley, however, saw a continuing difference in the worldview of both parties. He stated a natural preference for his party's socialist commitment since it related individual freedom to collective responsibility and obligation whereas the free enterprise predilections of the JLP were seen by Manley as the continuance of unstructured and irrational development and political "bossism." The differences grew less significant with the frequency of elections transferring the JLP into a more structured political party, with its leadership drawn from the same sources of its counterpart in the PNP.[14]

The PNP realized that for them to succeed at the polls they would have to counter the JLP's trade union. Bustamante's activities made him beholden to the working man in Jamaica. For although the PNP had the popular vote in the 1949 elections, it was still the opposition because its votes were in the more populous urban area which had a limited number of seats. This they did by forming the Trade Union Congress in 1952, a conglomerate of several unions. This set the stage for political infighting in the PNP. Ken Hill, the union's chief organizer, and other union leaders, Richard Hart, Arthur Henry and Frank Hill (the 4Hs and

---

[13]Rex Nettleford, Manley and the New Jamaica (New York: Africana Publishing Company, 1971), p. xxii.

[14]Ibid., p. xxxiv.

avowed leftists), were opposed by union moderates, N. N. Nethersole and Florizel Glassopole (Governor-General, 1974-85). All of them, however, were within the party executive.[15] It has been a recurring issue in the party that there is a leftist force, which had been purged over time. By 1952 the problems between the leftists and moderates in the party broke out into open warfare, and the 4Hs were expelled from the party.[16] The PNP always had to define its brand of socialism:

> Offically socialism meant to the PNP: (a) state control of the means and extent of production; (b) equality of opportunity; (c) the duty of the state to provide the necessities of life.[17]

The leftists of the party demanded or wanted more control of the means of production. Norman Manley responded by declaring that the PNP was not communist and the result was:

> The PNP statements of policy between 1940 and 1955 moved from the rhetoric of public ownership through the notion of socialism as a Christian way of life in favor of private ownership to the inclusion of 'socialism' merely as a label.[18]

The PNP never explained to the masses a coherent land policy and the JLP has always played upon the image of the PNP taking away their lands and animals and dividing it up among the rest of the populace.

---

[15]George Beckford and Michael Witter, Small Garden, Bitter Weed (Morant Bay: Maroon Publishing House, 1982), p. 43.

[16]Nettleford, p. xlv.

[17]Ibid., p. lviii.

[18]Plan for Today, 1940; Plan for Security, 1943; Plan for Prosperity, 1944.

> The PNP had always claimed a greater social consciousness over its JLP counterpart on the matter of land, but the JLP had always made capital of the PNP's vulnerabililty on its socialist views on land ownership and land utilization.[19]

The JLP lost no time in equating socialism with communism and the 1949 elections were greatly influenced by the JLP equating socialism to tyranny and slavery. In the 1955 elections after the 4Hs were expelled, the issue was not as potent and the PNP won.[20]

Bustamante always alluded to the PNP as the "brown man's" party. In unraveling this accusation, one has to critically examine the racial tensions in Jamaica. Although the national motto, "Out of Many One" has some validity, there are certain undercurrents that cause tension, one of which is the "brown man's" mentality of the privileged mixture characterizing the Jamaican upper class. The society emanating out of a plantation economy has certain inherent divisions: the absentee landowners, the rich Europeans who controlled the slave economy, and a small number of white settlers who owned medium-sized plantations. But the Whites had to have managers for their estates. For

---

[19]Nettleford, op. cit., p. lx.

[20]Nettleford is of the opinion that the international climate had an impact on the PNP's posture. The Cold War had begun in earnest. The United States, the archenemy of communism, was one of the major trading partners of Jamaica. Jamaica, therefore, had to relax her socialist posture. The political directorate had to adopt policy unopposed to the U.S. The PNP realized that the JLP had been using the Communist bogey to win the former elections. The PNP had changed its strategy and downplayed socialism. Also, the British government was against nationalization.

the most part these were indentured servants from Europe or the offspring of miscegenation, the "brown" men. Some inherited property from their fathers while others acquired savings made off managing absentee landowners' property and so bought properties themselves. Over the years this class has intermixed forming a distinct group -- the "brown man."[21]

Although Bustamante and Manley were classified as "brown men" they utilized it to different ends. Bustamante, through his union activities, was the poor man's friend who merely happened to be brown. Manley was a brown man of high intellectual integrity called upon to lead his people. He was an urbane lawyer given to support of the arts and cultural affairs. Bustamante was able, with some justification, to label the PNP the "brown man's" party. Many of the leaders of the PNP were actually brown, and if they were not, they aspired to the "brown man's" high intellectual capabilities (in many instances pseudo intellectualism). So a curious thing happened: there was a party of brown and intellectual men leading individuals preaching a doctrine of socialism that they did not live.[22] Until 1972, the PNP was a party that the middle class supported because of either "brown man" mentality or the

---

[21]Munroe and Robotham, p. 107.

[22]It was the writer's experience in 1976 that a brown member of the PNP hierarchy could not be entertained in a country constituency because there was no place deemed adequate enough for him to wine and dine.

striving for higher intellectual achievement. Over the years the great majority of the poor and illiterate people were alienated by what they perceived the PNP to be and Bustamante used this perception effectively against them.

Political Development in Jamaica

The Jamaican relationship with the developed countries has been one of dependency. Briefly, it was a former colony of Spain, but for the major part of its history, it remained a British colony. The majority of its inhabitants, blacks from Africa, were enslaved from the early sixteenth century and were emancipated in 1838. Jamaica, as the largest English West Indian colony, tends to be the model used for political relationships in the Caribbean.

The elections of 1954 saw a change of government with little gains in self-government. The movement was compromised by the independence movement for all the West Indian states. By 1958 there was internal cabinet government giving more power to local elected officials. Also, there was the possibility of a West Indian Federation leading to independence. However, by 1960 the Federation became too tedious and a referendum determining the Jamaican stance on the issue resulted in a narrow defeat for the PNP ruling party. The PNP had advocated a Federation of the West Indian islands; the JLP opposed. The PNP had won reelection in 1959 under that banner, but the possibility of gaining independence became more real in 1960. The JLP wanted to go it alone and the PNP called the referendum.

The JLP victory occurred at a crossroad point for Jamaica. The migration outlet to England in the 1950's had been closed. But the western expansion of increased bauxite production and urban development caused the dual economy. Many of the peasants were drawn off the land seeking employment in the urban areas, while the rural areas became unproductive, resulting in increased food importation. The influx of these rural persons aggravated the unemployment figures (See Table 3.1).

By the elections of 1967 the middle class was prospering and became heavily influenced by western conspicuous consumption. The JLP had changed. It had come to power in 1962 on a broad alliance of classes, by 1967 it had a vested interest in the new middle class. The PNP campaigned on the rising inequalities among the population and the need to control the natural resources.

The new PNP (1968), under the leadership of Michael Manley (Norman's son), had promised a more democratic government and increased control over the island's natural resources, a strategy to combat dependency and the start of self-reliance and regional cooperation.

TABLE 3.1

SIZE OF LABOR FORCE, NUMBER UNEMPLOYED, PERCENT UNEMPLOYED, PERCENT UNEMPLOYMENT, AND PERCENT CHANGE IN NUMBER UNEMPLOYED, 1943, 1955-1977

YEAR	SIZE OF LABOR FORCE	NUMBER UNEMPLOYED	PERCENTAGE OF LABOR FORCE UNEMPLOYED	PERCENT CHANGE NUMBER UNEMPL.
1943	509,092	79,000	16.0	--
1955	575,500	114,000	20.2	--
1956	601,200	116,400	19.0	+ 2.0
1957	645,000	120,000	19.0	+ 3.0
1958	656,300	117,500	18.0	- 2.0
1959	630,100	102,300	16.0	- 13.0
1960	607,000	84,900	14.0	- 17.0
1961	609,800	89,250	15.0	+ 5.0
1962	675,900	91,000	13.0	+ 2.0
1963	690,250	95,300	14.0	+ 5.0
1964	696,705	98,900	14.0	+ 4.0
1965	701,450	106,000	15.0	+ 7.0
1966	722,000	120,000	17.0	+ 13.0
1967	730,000	412,000	56.0	+243.0
1968	750,000	215,000	29.0	- 31.0
1969	771,873	225,000	29.1	+ 5.0
1970	798,400	218,300	27.0	- 3.0
1971	805,600	207,500	26.0	- 5.0
1972	822,000	203,000	25.0	- 2.0
1973	850,200	208,600	25.1	+ 3.0
1974	890,755	212,850	24.0	+ 2.0
1975	925,400	221,300	24.0	+ 4.0
1976	957,000	246,400	26.0	+ 11.0
1977	989,800	271,700	27.0	+ 11.0
MEAN % CHANGE				+ 11.8

Sources: Labour Force Statistics (1958-1978); Jefferson (1972); Francis (1963); Five Year Development Plan 1962-1963; Five Year Development Plan 1972-1977.

The period 1972 to 1980, saw another change of government. Manley's election coincided with the economic change in the world international system. In August of 1971 President Nixon broke away from the agreements of Bretton Woods and the United States dollar no longer was backed by gold at $35 per ounce. Also, Nixon had entered a period of detente with the Soviets and the Chinese.[23] A genuine sense of interdependence between the world's people was felt. Many countries that were under the western umbrella felt that they could have more meaningful relationships with the eastern block countries and Cuba. The remaining African countries under the colonial yoke sought their independence from the Portuguese, South Africans, and the British. The Manley government then started to initiate some changes at home and in its foreign policy. The latter was more in sympathy with the tenets of the non-aligned nations rather than that of the old relationships of dependency and alignment. The new posture stemmed from the unfavorable positon of the developing countries. They wanted more equitable trading agreements and they demanded this by the call for a new order. This demand was formalized by the Group of 77 at the U.N. meeting in 1974.[24]

In 1973 after the Arab-Israeli October war, the Arab countries boycotted oil supplies to the United States and

---

23Nettleford, p. lxxi.

24W. A. Lewis, "Economic Development with Unlimited Supplies of Labor " <u>The Manchester School</u> (May 1954), pp. 141-142.

the Netherlands and formed OPEC at the same time. The United States retaliated by increasing the price of her grains.[25]

OPEC had two major impacts on the developing countries: (a) the balance of trade worsened especially of those that had depended on oil as their major energy resource: (b) it was the first time that the developing countries could dictate favorable trading terms with the industrialized countries, hence the LDCs formed a coalition with OPEC which gave them power in demanding a NIEO.

The LDCs' position was best explained by Michael Manley. Although the oil increases were crippling the Jamaican economy, he was willing to sacrifice for Third World solidarity. Never again would there be such a golden opportunity to show the developed countries that their monopoly on Third World raw materials was inequitable and detrimental to Third World development. Although the LDCs were adversely affected by the oil price increases, they realized that they had to do something about inequalities in the international trading arena. There was some concern among developing countries that they should receive preferential treatment from OPEC because the oil increases were having adverse effects on their economies. This dissension was muffled by the euphoria that they were dictating some terms of trade to the DCs and hopefully in the future a more equitable system of trade would be reached

---

[25]Beckford and Witter, p. 43.

to the benefit of all. This area however remains fertile grounds for discontent among LDCs and OPEC, but these problems will not be resolved until OPEC itself is on firmer grounds in negotiations with the DCs. The Manley government was active in pursuing better cooperation among LDCs. It worked out a plan with Venezuela for differential payment of oil based on anticipated increased oil prices. At the same time it tried to form a consortium with Trinidad, Guyana and Venezuela for a bauxite smelter. Late in his administration he negotiated with Algeria to barter bauxite for aluminum and a loan for $100 million was in the making with Libya when he left office.[27]

In 1974 Manley led a group of four Caribbean commonwealth governments in officially recognizing Cuba and readmitting her into the Organization of American States. In addition, he declared Jamaica a democratic socialist country, passed a levy on the bauxite companies and formed a bauxite cartel. These political actions had grevious consequences for the government as the United States began a program of destabilization (see Chapter IV). To make matters worse, oil and wheat price increases whittled the Jamaican reserves. ". . . Jamaica's oil bill in 1980 was eleven times higher than it was in 1973 even though it cut consumption by twenty percent."[28] But the Manley government

---

[27]ABC Report, December 30, 1980.

[28]Ibid., p. 114.

maintained that Third World solidarity, however harsh the consequences, was necessary to break the stranglehold the developed economies had on the developing states. In spite of this situation, the government at the time was:

> . . . undertaking an unprecedented land reform program; national control over public utilities; the creation of sugar workers' cooperatives; the institution of a Minimum Wage and Labor Relations Act; an end to discrimination against illegitimate children; compulsory recognition of trade unions; equal rights for women including equal pay for equal work and appointment of women to senior positions; free education at the university level; nutrition subsidies for 70,000 children; rent roll back in depressed areas; national day care programs; an increase in public assistance; the establishment of community farms; special loans to farmers; an attack on adult illiteracy; the restoration of civil liberties and an end to harassment of individuals for political reasons.[29]

These changes meant that the middle class formed by the PNP in the '50s and the JLP in the '60s had to bear the brunt of taxes to pay for these services. They took the position that the government had come under the direct control of Castro's Cuba --propaganda born in the United States.[30] As a result, they resisted the programs, fled the country in hoards and took millions of dollars with them which started a foreign exchange problem.

The PNP was not deterred and continued on the road to self-reliance by diversifying its trade and seeking higher prices for Jamaica's raw materials. But the proximity to the U.S. and historical reliance on American technology

---

[29]Ibid., p.

[30]Girvan, p. 128.

made it a difficult proposition and slowly, the battle of attrition waged by the United States government retarded its progress. The exaggerated press reports of crime in Jamaica caused the rapid decline in tourism plus the drying up of loans.

Manley declared:

> The formation of the International Bauxite Association must be seen, not as an act of reprisal, not as an attempt to wrest undue power for ourselves, nor as an act calculated to threaten those who need our raw materials for their society's well-being, but rather as our effort to achieve an equitable return for the raw material which is our patrimony.[31]

---

[31] Asian Wall Street Journal, February 28, 1980, p. 21.

CHAPTER IV

THE MANLEY YEARS 1972-80 AND THE IMF POLITICS

The PNP's electoral victory in 1972 was opposed by forces inside and outside of Jamaica. Violent crime and political thuggery were part of Jamaica's political culture, but it escalated in the late 1960's. The PNP had won the 1972 elections on the slogan "The PNP will destroy the guns". The PNP did not effectively stop the guns; gun crimes actually went up. The PNP responded by forming the Gun Courts, anyone found possessing illegal firearms was jailed indefinitely. Later the courts found this to be unconstitutional and mandatory life sentences were imposed. However, these measures did little to deter the violence.[1]

Matters became worse in February 1976. A series of shootings occurred, including two guards at the American consulate and two policemen. Roving gangs invaded several communities and set them on fire, accompanied by the shootings at firemen who tried to douse the fires. These incidents embarrassed the Manley government because they coincided with the meeting of the IMF Foreign Ministers conference held in Jamaica. The accompanying international reporters

---

[1]Race Today, Vo., 8, No. 5, p. 115

[2]Jamaica: Caribbean Challenge, EPICA Task Force, ISBN 0-918346-03-0, Washington, D.C., 1979, p. 74

relayed the news home.

In May, a PNP stronghold was surrounded and the houses set on fire. All escape routes were blocked off by gunmen, resulting in two adults and eight children being killed. In June 1976, gunmen attacked a PNP youth club dance and killed six people and wounded fifty.[3] In the same month, a group of well-to-do right-wing middle class women staged a demonstration protesting shortages of food. The demonstration was almost a carbon copy of the famous CIA-inspired "March of the Empty Pots" by middle class Chilean women opposed to the socialist Allende government.

The internal resistance was strengthen by bad publicity abroad. The U.S. press got into the act and unfavorable articles appeared in dailies and weeklies.[4] Some writers asserted that Cuba had a cadre of Jamaican leftists bent on a communist take-over. They focused on widespread violence and anti-Americanism and said lack of government control in the island made it dangerous for American visitors. The result was that many hotels closed and tourism slowed to a trickle. The bauxite companies

---

[3]Ibid., p. 74.

[4]James J. Phillips, S.J. "Jamaica: A Repeat of the Chile Pattern?", Christian Century, September 1976, p. 2. This had the effect of disrupting the PNP's plan for more self-reliance on Jamaica's produced foods. "The New Jamaica," Newsweek, January 12, 1976 pp. 44-45; "Bauxite Producers Opt", Business Week, November 1, 1976. pp. 27-28; Stephen Davis "Fear in Pardise", New York Times, July 25, 1976, magazine section pp. 30-32; David Binder "Cuban Influence in Caribbean Rises, Worrying U.S. Officials", New York Times, March 21, 1976, p. 1.

responded to Manley initatives by reducing production by 30 percent and doubling their imports from the African countries. The U.S. assistance of $13.2 million in 1974 dropped to $2.2 million in 1976.[5] The international investment, which was a major source of Jamaica's capital, declined. According to one writer:

> there was a tendency for potential investors and lenders to stay on the side lines waiting developments. Private foreign investment has all but ended and the Government of Jamaica faces increasing difficulty in finding lenders to finance debt burden.[6]

The Manley government protested that it was being destabilized. Manley declared:

> that Jamaica was the target of "international action" to stop social change. . . . unexplained violence at sophisticated levels, upsurge in industrial unrest, organized letters in the press, internationally orchestrated articles published in newspapers, the slowing down and entangling of aid.[7]

In September former CIA agent Phillip Agee was invited to Jamaica by the Jamaican Council for Human Rights. He publicly identified seven CIA officers and four other U.S. Embassy personnel he felt certain were working with the CIA. Within days of Agee's disclosure, three of the

---

[5]Office of Program and Information Analysis Services, U.S. Agency for International Development, U.S. Overseas Loans and Grants Assistance from International Organizations: Obligations and Loans Authorization, July 1, 1945-September 30, 1977 (Washington, D.C., 1978), p. 54.

[6]U.S. Department of Commerce and U.S. Department of State, Foreign Economic Trends and their Implications for the United States: Jamaica, No. 77-065, May 1977, p. 7.

[7]Caribbean Monthly Bulletin, May-July 1976, p. 14.

United States diplomatic team suddenly left the island.[8] In a small country like Jamaica the presence of eleven reputed CIA agents seemed excessive.

On the economic front tentative contacts with the IMF in 1976 indicated that their general prescription for help would be to the private sector. The curtailment of public spending and the freezing of wages would be conditions for their aid.

The wage increases from 1974 to 1975 averaged between 50% and 60% and began to exceed substantially cost of living increases. In the election year of 1976 the government proposed a catching up with cost of living increases since the June 1973 oil (OPEC) prices. These were election promises the government guaranteed. On the other hand, they froze wages in excess of $16,000 per annum.[9] They did this so that income inequalities would be reduced.

In addition, the government introduced a tax package of $80 million to an economy whose production was leveling off and tried to curtail government expenditure in an election year. These measures fell far short of their mark. By November a critical situation had become worse. The Jamaican government needed foreign exchange desperately so it applied to the IMF for $13.5 million in Compensatory Financing Facility which were funds the IMF made available

---

[8]Ellen Ray, "CIA and Local Gunmen Plan Jamaican Coup," Counterspy, Vol, 3, No. 2, December 1976, pp. 39-40.

[9]Norman Girvan, Development Dialogue, p. 121.

to countries that were adversely affected by the increased oil prices. It was the newest IMF initiative to alleviate export shortfalls.[10] The request was granted grudgingly.

> . . . the major industrial countries' representatives vied with one another in scolding President Michael Manley's government for slapping on unauthorized import licensing restrictions and otherwise breaking their promises to the Fund . . . . Third World representatives at the meeting sympathized with the Jamaican government dilemma. The social and political conditions were such that they could not be ignored, maintained Festus G. Mogae, representing 16 African nations. This plea for understanding left Director Cross unmoved. The Jamaican authorities had departed substantially from the financial programme that had been presented to the Fund, he said reprovingly. (The programme would have required cuts in wages and government aid for the poor.) The concept of conditionality for the use of the Fund's compensatory financing facility and its other facilities must not be weakened, he insisted.[11]

At this point the IMF and Jamaica had no major problems, but they were insisting that on a general rule public expenditure be cut in favor of private.

The rumor was that the PNP and the IMF had worked out a standby arrangement in December of 1976. But the election results precluded the harsh measures requested by the IMF. These measures were a major devaluation, a wage freeze, and a programme to achieve a balanced budget. The left wing of the PNP was in ascendency and General Secretary D. K. Duncan, who was credited with organizing the massive PNP

---

[10]Ibid., p. 121. (The Fund had reservations in granting this loan because it might be used to support policies counter to IMF dictates. They were concerned about the wage increases and the printing of money by the Bank of Jamaica to offset the lack of foreign investment.) See Chapter II.

[11]Ibid., p. 122.

victory, and others of the left were not prepared to give in to IMF conditions that did not benefit the masses of the people they had just aroused.[12]

In January 1977 the Prime Minister made a defiant speech to the nation that the IMF conditions were unacceptable and called upon all Jamaicans and members of the left to prepare a production plan. Although austere, he hoped it would relieve the situation. At this time the foreign exchange market of Jamaica had closed down because there were no foreign reserves after the general election. It was decided that the market would reopen on a day-to-day basis, and that the new plan would eventually ease the acute shortage of foreign exchange. The plan called for (a) no devaluation; (b) a steep new gasoline sales tax aimed at raising $50 million; (c) a six-month pay raise moratorium; (d) strict import licensing and the rationing of foreign exchange to essential payments only; (e) additional government takeovers in commercial banking and cement; and (f) preparation of an Emergency Production Plan to mobilize domestic production in agriculture, industry, bauxite, and tourism.[13] The plan was still on the drawing boards when the internal problem forced Manley to reconsider his position on the entire issue at hand.

Manley's problems were two-fold. First, right and center groups of the party favored an agreement with the

---

[12] The Jamaica Daily Gleaner, December 18, 1976.

[13] Girvan, p. 122.

IMF. They controlled the key governmental financial institutions, the Bank of Jamaica, and the important ministries such as finance and trade. The other problem was the private sector, which was opposed to any initiatives of trade and loan from the Eastern bloc countries.

The wealthy and businessmen complained that the present state of affairs gave them no incentives to invest their monies and energies into production. They began to lay off more workers, and made litle effort to find local raw materials to replace unavailable imports.[14]

The Jamaican and IMF relationship is shown in Table 4.1. The economic squeeze was causing internal unrest and the threat of a shutdown by the private sector forced the government to negotiate with the IMF. The private sector was aware that if agreement were reached with the IMF, there would be stronger likelihood of increased international commercial loans.[15] On the other hand, the government was able to arrange many unconventional loans, albeit they came from conventional sources. Through Manley's personal friendship with Prime Minister Trudeau the government got a loan of $100 million. Prime Minister Callaghan of Great Britain made some funds available. He, too, was critical of the IMF conditions because, were it not for North Sea oil revenue, Britain would have been adversely affected by its IMF terms.[16]

---

[14]EPICA Task Force, op. cit., p. 101.

[15]Girvan, p. 123.

[16]Girvan, p. 124.

The government had felt the effects of the world recession in the early 1970's, but the bauxite levy of 1974 was more than enough to offset the reduction in loans and investment capital (see Table 1.4). The IMF, however, was concerned about Jamaica's high currency (one dollar Jamaican was equivalent to $1.10 U.S.) and the fact that the government had increased wages, and was spending the levy funds on public sector projects. They predicted that a financial crisis would occur if more production was not forthcoming. Production for the IMF meant private sector-created jobs and increased exports. The Manley government wanted a more equitable society. He favored public sector jobs and more employment. These differences were not mutually exclusive but were enough to prolong the ongoing conflict with the IMF (see Table 4.1).

Jamaica's problems with the IMF became critical in the election year of 1976 and in 1977 because of the government's emphasis on social reform and the IMF requirement for stricter fiscal management. The general problems are listed in Table 4.1.

The initial agreement between the IMF and Jamaica was a compromise; it was a two year stand-by agreement.

> In April 1977, it was announced that a fresh approach would be made to the Fund as part of the Emergency Production Plan. Simultaneously, a dual exchange rate was adopted: a 37.5 per cent devalued "Special Rate" to facilitate exports and to apply to essential imports; and the old rate, "Basic Rate," for governmental transactions, bauxite exports and essential imports of basic foods and medicine . . . . Wage increases after the expiration of the moratorium would be limited to $10 per week about 22 percent on the average weekly rate.[17]

---

[17] Ibid, p. 125.

The devaluation and austere IMF measures exacerbated the problem of migration of skilled persons and their illegal financial transactions. The drain of foreign exchange returned to pre-1976 elections volume amounting to over $300 million.[18]

The agreement created open warfare within the PNP party. The left, which had made gains in the party since the election of 1976, was disciplined at the party conference in September 1977 because of its continued opposition to the IMF terms and was voted out of its position of prominence. D. K. Duncan, General Secretary and the Minister of Mobilization, whose job it would have been to oversee the Emergency Plan and the "Non-IMF way" resigned with his staff after the party conference.

The IMF and its Conflict with Jamaica

In a worsening economic climate caused by IMF austerity and irresponsible private sector greed for profits, the initial agreement from February 1977-December 1977 had to be changed. The truce between the IMF and Jamaica did not last for long because of the internal problems. The wage guidelines set by the IMF were breached by the trade unions demanding more. Manley, coming from a trade union background, went along with the unions. But the IMF held the trump card. The Bank of Jamaica failed to achieve the required J$355 million by the ridiculously small

---

[18]EPICA Task Force, p. 103.

amount of J$9 million, representing 2.6 percent.[19]

The IMF after nine months called for a new agreement. The two-tier system was disbanded and the exchange rate was unified, plus an additional 15% currency devaluation was effected. This meant 47% devaluation of the old basic rate (1976 prices). There was also to be an additional 1.5% monthly devaluation starting from May 1978 to May 1979. Varying additional taxes were placed on different consumer goods.[20] Incentive was given to the private sector by the lifting of price controls. The objective was to secure more private sector investment and expansion.

There were other political ramifications to these conditions. "Minister of Parliamentary Affairs Ken McNeil quit in January 1978; Finance Minister David Coore, in March; and long-time member of Parliament Vivan Blake, in May."[21] In 1978 Finance Minister David Coore resigned because he was blamed by the people and party for failure to abide by strict IMF conditions.

> IMF shocker! 15% devaluation, $180.3 million in new taxes, gas $3 per gallon. The announcements were part of a three-year economic programme announced by Finance Minister Eric Bell resulting from negotiations between the government and the International Monetary Fund for a U.S. $240 million loan assistance package . . . . He conceded that the final decisions would be a "shock to the society" over which the Cabinet had agonized in an attempt to ease the burden on the poorest in the society.[22]

---

[19]"Jamaican Dollar", International Currency Review, No. 2, May 1979, pp. 153-157.

[20]EPICA Task Force, op. cit., p. 99.

[21]Ibid., p. 155.

[22]Weekly Gleaner (North America), May 22, 1978, p. 1.

Eric Bell, the new minister, was more diligent to the tasks, but after complying with the IMF conditions he expressed concern about the hardships on the people.

> The rapid adjustment had the effect of shocking the productive sector as well as the man in the street. Few countries, authoritarian or democratic, could have survived the period without violence. Jamaica did, and when by the end of 1978 the community recovered from the initial shock of the adjustment, it became clear that there was insufficient foreign exchange to provide capital goods and raw materials required for recovery and expansion.[23]

The Gross National Product began to decline. From 1978 to 1979 the Jamaican political machinery went along with the IMF, and in certain quarters, actually was regarded as an IMF success story. But there was dissatisfaction in the PNP ranks because of the slowdown of benefits to the masses of the people and the increased militancy of the private sector in demanding more. The government had not given up hope in finding an alternative to the IMF, but the world was in recession and financial loans were difficult to obtain and interests rates were exorbitant.

The Jamaican government tried to make the new agreement work as best as it could, and it followed IMF dictates both in letter and spirit. She devalued the currency, relaxed price controls, increased taxes and held down wages. As a matter of fact, the 25 percent reduction asked for was closer to an estimated 35 percent by the National Planning Agency.[24]

---

[23]IMF Report, 1979, p. 190.

[24]The Jamaica Daily Gleaner, November 14, 1979.

In 1978 the Jamaica government was the highest recipient of IMF loans because she had adhered to the IMF dictates so closely. At the same time the international commercial banks were not granting Jamaica any loans because they perceived the government to be socialist.[25] THe IMF felt duty-bound to assist Jamaica in her dilemma caused by their arrangements. But she was not totally honest about it, because of the funds committed, only a fraction was actually disbursed (See Table 4.2).

TABLE 4.2.

IMF RESOURCES APPROVED AND USED UNDER THE STAND-BY AGREEMENT AND EXTENDED FUND FACILITY
(U.S. $ millions)

Agreement	Approved		Disbursed	
	US $ M	% Quota	US $ M	% Quota
Stand-by agreement July - December 1977	75	120	22	35
Extended Fund Facility May 1978 - January 1980	429	445	172	179

Source: Bank of Jamaica, 1980.

[25]Jennifer Sharpley, op. cit., p. 261.

For a time the IMF was pleased at the government's performance. In the light of its difficulty in acquiring new loans from the commercial banks, the IMF interceded and actually helped in implementing her own recommendations because the government was using the money borrowed for IMF performances test rather than frivolous spending on private sector exports.[26]

> However, Jamaica could hardly be punished for adopting a programme of the Fund's own making, and the IMF helped the government technically to pass the arrears tests and adopted an understanding and sympathetic attitude towards the shortfalls in fiscal performance (performance tests were not actually breached).[27]

The IMF insisted that along with the package they were suggesting that the government abide by certain guidelines.

1. Wage increases would be kept to 10 percent and price increases also kept to 10 percent through the social contract.

2 Government would work to promote an atmosphere of harmony and mutual trust and confidence with the private sector.

3. Trade unions would undertake to minimize industrial disputes especially those arising out of inter-union rivalry.

4. The private sector would undertake to reinvest profits and so promote growth and create jobs.

5. Government was to reduce the real size of the budget (the nominal increase was kept to 4 percent) in order to release more credit for the private sector.

6. The Fund committed more resources for the second and third year of the programme, principally from the

---

[26]Richard Fletcher, formerly of the Ministry of Finance, in an interview, (August 1983) recalls how the U.S. commercial banks became hesitant to give loans because they were being monitored more strictly.

[27]Girvan, p. 124.

supplementary financing facility. The total would amount to U.S $419 million compared to U.S. $240 million originally committed in 1978 making Jamaica the highest recipient of IMF assistance in per capita terms.[28]

The IMF and Its Conflict with Jamaican Politics

There were factors other than economics that precipitated the Jamaican crisis with the IMF. They were essentially political, and they were local as well as international. The IMF tends to separate politics from economics and insists that they are neutral and are the ablest technocrats in the economic field.

Manley's actions as a political leader affected Jamaica economically. The stage was set in the early 1970s by the United States overtures to the Soviet Union and China and the beginning of detente. It would seem reasonable that Manley could have friendly relations with Castro, an island ninety miles away, and one that has had significant historical ties with Jamaica. But this was only one of Manley's political moves.[29]

A more serious stance toward the United States and the developed world was Manley's association with the nonaligned nations and their awakened demand for a New International Economic Order. The developed countries were

---

[28]Ibid., p. 128.

[29]Nettleford, in A New Jamaica, is of the opinion that detente by the U.S. gave Jamaica certain signals to have more friendly relations with the socialist states. op. cit., p. xii.

going through a boom in the late '60s and early '70s. The Southern countries came to realize the developing countries' dependency on their raw materials (see Table 4.3). The OPEC price hike served to accentuate the growing power of the South. Manley was one of the Southern leaders who was in the forefront of that movement.

Table 4.3

DEPENDENCE ON SELECTED MINERAL IMPORTS
FROM UNDERDEVELOPED COUNTRIES, 1973
(as a percentage of consumption)

	United States	Japan	Western Europe
Bauxite and aluminum	67.0%	47.0%	22.0%
Chrome	31.0%	38.0%	38.0%
Copper	51.0%	49.0%	57.0%
Iron Ore	34.0%	44.0%	30.0%
Lead	25.0%	16.0%	16.0%
Manganese	68.0%	21.0%	42.0%
Nickel	7.0%	88.0%	2.0%
Phosphates	-	39.0%	67.0%
Tin	94.0%	90.0%	85.0%
Tungsten	61.0%	96.0%	58.0%
Zinc	11.0%	32.0%	16.0%

Source: Council on International Economic Policy, International Economic Report of the President (Washington, D.C., March 1975). pp. 161-162.

He realized that if the OPEC movement was broken by southern countries quarreling among themselves about the increases, as they affected them, that there might never be another opportunity for the South to demand equity from the North. In 1974 he raised taxes and royalties on bauxite production; the new taxes were based not on the bauxite extracted, but on the price of aluminum ingots on the North American markets. He was even more aggressive in anticipating that the companies would decrease production and shift their operations. He required them to maintain production levels established by the Jamaican government or to pay taxes on that level whether or not it was actually maintained.[30]

In exacerbating the problem, he was instrumental in forming the International Bauxite Association that had a membership of eleven (Jamaica, Surinam, Guyana, the Dominican Republic, Haiti, Ghana, Guinea, Sierra Leone, Yugoslavia, Australia, and Indonesia). The cartel worked at first, but the combination of transnational bauxite companies and Third World lack of solidarity saw Australia and Guinea selling bauxite at a lower price. Also Australia improved its production at the expense of the Caribbean partners of Jamaica, Surinam, and Guyana.[31] Theinternational companies retaliated by slowing down

---

[30]Carmine Nappi, Commodity Market Controls (Lexington, Mass,: D.C. Heath, 1979), p. 123.

[31]Spero, op. cit., p. 277.

production in the Caribbean.

The United States was gravely concerned about Jamaica's action and Ambassador de Roulet voiced his dismay by saying he had had Manley's reassurance that there would be no increases. Manley, in retaliation, made him "personna non grata." The U.S. administration did not take kindly to such a show of national authority, and relations between Jamaica and the United States were at a very low point. This deteriorated to the point that the embassy was regarded as a danger post. The actions of Jamaica were more than an irritant to the United States. As the leader of the developed market economies, it had a vested interest in free trade. The demands of the South and unilateral actions like Jamaica's were frowned on. Interestingly enough, Tony Smith is of the opinion that if the South did not call for a NIEO, the North would probably have done so. Although his analysis is not Marxist he agrees with Lenin that capitalism over time runs into the problem of the need for expansion of its markets. Smith cites the new invesment of multinational corporations and their global expansion. If the LDCs remain depressed, they will have neither the appetite nor the resources to consume products made in th metropole.[32] The demands for a new NIEO reflects Jamaica's sentiments:

> The present international economic order is in direct conflict with current development in international, political and economic relations . . . . The developing

---

[32]Tony Smith, "Changing Configurations of Power in North-South Relations Since 1945" <u>International Organization</u> XXXI (1977), pp. 1-27.

> world has become a powerful factor that makes its influence felt in all fields of international activity. Their irreversible changes in the relationship of forces in the world necessitates the active full and equal participation of the developing countries in the formulation and application of all decisions that concern the international community.[33]

The developing countries recommended that a:

> North commitment to the transfer of 0.7 percent of GNP as set by the second United Nations Development Decade, a greater flow of emergency funds designed to deal with the food, energy, and recession-inflation crises, a renegotiation of the less developed countries' debt, and the implementation of the link in monetary reform. Foreign investment recommendations called for the right to expropriation, greater Southern control of multinational corporation, more effective application of technology by foreign investors, and improvement in ways of transferring technology to less developed countries.[34]

The United States, fearing a flood gate, effectively resisted any concession to the LDCs. The reaction was hostile, and Patrick Moynihan and John Scali, representing the United States at the U.N., reacted demonstratively against such a proposal, calling it "tyranny of the majority" because by this time, (1974) the Southern states were a majority in the General Assembly.

But the Northern states were divided and France, with a relatively planned economy, realizing what a detrimental effect a Southern boycott would have on her economy, began to reason with the South. At the sixth special session of

---

[33]Guy F. Erb and Valerianna Kallab, Beyond Dependency: The Developing World Speaks Out (Washington, D.C.: Overseas Development Council, 1975), p. 186.

[34]Anthony Edwards, "The Potential for New Commodity Cartels: Copying OPEC or Improved International Agreements?" QER Special No. 27. (London: The Economist Intelligence Unit, September, 1975), p. 4.1.

the United Nations General Assembly, France pressed for organization and international management of raw material markets.[35]

In May of the following year at the meeting of Commonwealth Heads of Government in Jamaica, Prime Minister Harold Wilson of the United Kingdom outlined a new British policy that included a general international commodity agreement, specific commodity agreement, stabilization of export earnings, and consideration of indexing prices of raw materials and manufactured products.[36] The Europeans and Japanese were steadily moving towards compromise with the South, but the United States remained adamant. They would only agree to discuss oil and energy issues, but were opposed to any broad consumer-producer negotiations. At a meeting of oil producers called by the South in April of 1975, the United States refused to agree to attend and the meeting collapsed.[37]

But there was a change in international relations. The South was able to combine many of its demands with the powerful OPEC countries. Also, the United States realized that the other developed countries were more oil dependent,

---

[35]Foreign Minister Michael Joubert at the sixth special session of the United Nations General Assembly, April 10, 1974. Service de Presse et d'Information.

[36]Prime Minister Harold Wilson, May 1, 1975 (British Information Service Policy and Reference Division 33/75.)

[37]Charles Robinson, Undersecretary for Economic Affairs, U.S. Department of State, The Bulletin, 72, (May 26, 1975), pp. 688-689.

and to a lesser extent raw material dependent, and they could not play the indifferent role that the U.S. had adopted. The U.S. feared that the other developed countries (Western Europe and Japan) would make separate arrangements with the developing countries and she would be left in the lurch and would not be able to play a leading role in the new negotiations. An about face was made in May 1975 when Under-Secretary of State Charles Robinson said, "We expect the OPEC-LDC bloc under OPEC leadership to be a strong and vocal force in future international forums."[38] This was followed by Secretary of State Kissinger's announcement in Kansas City that same May, that the United States was now willing "to discuss new arrangements in individual commodities on a case-by-case basis."[39] Although the United States showed its willingness in September 1975 for achieving a new international economic order, it merely signaled a shift, but not a fundamental change in American policy. There were forces in the U.S. government that resisted any commodity agreements, and with the advent of recession and inflation in the 1970s, there was increasing protection of U.S. markets from Southern exports.

The Manley government was involved in other political ventures. A Jamaican team of negotiators was instrumentalin keeping alive the Law of the Sea Conference by proposing

---

[38]Ibid., p. 190.

[39]Secretary of State Henry Kissinger, U.S. Department of State, The Bulletin, 72 (June 2, 1975), p. 717.

a compromise between the North and South. Gaining the backing of many of the nonaligned countries, Jamaica was proposed as the headquarters for the Conference.[40] There was resistance by the developed countries on the general concept "that the oceans should be exploited for the benefit of all mankind." The heart of the controversy was that the developed countries wanted at least sixty percent of the undertaking because they were the ones supplying the capital and the technology. Also they wanted free access for exploration and were opposed to the 200-mile limit zone of economic control and favored the 12-mile limit. The developing countries countered by insisting that their economic zone extented beyond the 12-mile limit and many were claiming 200-mile economic zones, which meant the major portions of the ocean, and that landlocked countries should also benefit.

After initial reluctance by United States Presidents Nixon and Ford, President Carter favored an agreement, but the Reagan administration opposed the treaty.

Jamaica was also active in the reform of the IMF and was a member of the Committee of Twenty that met in January of 1976 to negotiate a list of reforms prepared by the Executive Board of the IMF in 1972. They were concerned with the adjustment process, the convertibility system, the management of global liquidity, and the transfer of real

---

[40] The Jamaica Daily Gleaner, February 3, 1976.

resources to developing countries.[41] The Committee of Twenty in 1976 decided that:

> the Jamaican agreement virtually accepts the fait accompli that had followed the breakdown of the Bretton Woods system. Thus members are permitted to adopt the exchange arrangements of their choice; the IMF is given the role of exercising firm surveillance over the exchange rate policies of members and adopting specific principles for the guidance of all members with respect to those policies.[42]

Effectively they had adopted the United States decision of floating exchange rates but from 1974 the Jamaican government was aware of the problems the IMF had in its exchange rates because of lack of liquidity, and was unwilling to go to the IMF for assistance.

Jamaica, by this time, had become a vocal leader in nonaligned and Third World forums for a just economic order. Michael Manley, as a vice-president of Socialist International, became a global figure and like Nkrumah before him, was convinced that imperialism was the single most important factor causing underdevelopment. He became a firm believer in the dependency theory; he, therefore, sought to diversify the Jamaican trading partners and to seek more aid from the Socialist bloc.

Although the Carter administration was not antagonistic, certain other anti-socialist forces in his government were most upset with the Jamaican show of independence and the turn towards socialism as they

---

[41] North/South Dialogue, p. 175.

[42] Ibid., p. 176.

perceived it.[43] They got ample support from Edward Seaga, the leader of the opposition, who on a visit to United States told a session of Congress of the Jamaican government's rapid movement towards socialism and of the planned restrictions of the private sector. On his return to Jamaica there was a motion in the Jamaican House to censure his behavior and it was passed.[44]

Jamaica and the IMF Conflict

By 1979 the Manley government's political utterances and the IMF foothold on the economy had come to a head. He had sought to improve Jamaica's export potential by forming a consortium between Mexico, Venezuela, Trinidad and Tobago, and Jamaica to produce aluminum from bauxite. When that venture fell through because of a lack of consensus among the group, he approached the Hungarians and plans were afoot for them to build a smelter in Jamaica. He approached Algeria for a joint venture and in the final days when IMF relations were cut off, he approached Libya.[45] The Seaga government became the recipient of the Libyan loan.[46]

---

[43]Girvan, p. 122.

[44]The Jamaica Daily Gleaner, March 10, 1977.

[45]Michael Manley on ABC News Documentary: ABC News Closeup: A Matter of Survival with Tom Jarrel. December 30, 1980.

[46]The Manley government made arrangements for a loan of $100 million but it came through 3 months after it left office. The deliberations with the Algerians were still in the initial stages when the government was removed.

Manley defended these moves by telling an ABC documentary team,

> We go to Algeria and say, Comrades in socialism, you are Third World, we are Third World, you have gas power, we have bauxite raw materials. Make we do a thing, make we marry Third World resource with Third World power, and I say, Glory to the process.[47]

The IMf refused to give the PNP a reprieve on their loan repayment. This slowed imports of raw materials for manufacturing. The government in March broke away from the IMF and Manley called an early election to get approval from the populace. The events that led to this breakaway were the government belief that:

> Well, what was happening was that the IMF was trying to insist upon, in a country already suffering, the grave social consequences of heavy unemployment, was really saying in effect, either lay off tens of thousands of people or virtually wipe out the social programs not a matter of free education . . . we can't guarantee that and therefore the battle would rage. You know, about what to, should be the proper extent of the . . . . We know and that of course things have to tight, but not that tight.[48] (SIC)

The Manley government appeared confused on its acceptance of IMF dictates. They had eroded the mandate they got from the populace for a non IMF path of development. The party was returned in 1976, and the Jamaican people appeared to be willing to make the necessary sacrifice for foregoing an IMF loan. But having accepted the IMF loan, though he had avowed not to take it, Manley got little sympathy from his

---

[47]Michael Manley <u>ABC News</u>, December 30, 1980.

[48]Ibid., p. 142. (an improptu speech by Manley recorded by ABC news team.)

strongest supporters when the IMF conditions became unbearable.

The IMF conditions caused unemployment and an increase in food prices. The Manley government tried to reassure its supporters that it was for the long term good. But there was increased discontent and continued pressure from the left wing of the party. In a national meeting in February the party decided to break relations with the IMF.

The JLP won the election in October 1980 on an IMF pro-capitalist, pro-United States platform. It also used the Communist bogey, started in 1944, only with more ammunition this time resulting from the increased friendship between Manley and Castro. Seaga responded to Manley's protest of undue influence by the socialists.

> They don't like when I call them Communists. They don't have to. Their foreign policy is the same as Cuban Communists. They send over young boys to be trained in Marxism, Leninism, which is another name for Communism. They get Cuban agents to come here to train hand picked members of the security forces in political espionage. They walk with Communists, they talk with Communists, they march with Communists, hold meetings together with Communits; they do everything that they can possibly do with Communists. I say that if you look like a duck and if you walk like a duck, if you swim like a duck, and you quack like a duck, you cannot be anything else but a duck.[49]

Michael Manley insisted that Jamaica was merely taking a nonalign-posture.

> We have known our philosophy a long time, Democratic Socialism . . . and we trade honorably with the United States, we trade honorably with Canada, we want our friendship with America, we want our friendship with Canada, we want our friendship with the Soviet Union. We have worked with them.[50]

---

[49]Edward Seaga on ABC, December 30, 1980.

[50]Michael Manley on ABC, December 30, 1980.

The JLP's victory was a convincing 51 to 9; again the Jamaican people had chosen the immediate gains over the long-term self-reliance and development. The coalition of middle class workers and lumpen proletariat that gave the PNP victory in 1976, were not prepared to undergo the hardships that they foresaw with the break with the IMF. The Manley government in 1980 was in essence asking them to make the sacrifice in 1980 that they had already given him in 1976. Furthermore, although the PNP won many seats in 1976, the historical two-party system with both parties having a core of roughly forty percent each, with a twenty percent swing vote meant the JLP was not dead. Both U.S. presidential candidates expressed their approval.[51]

To demonstrate his approval, President Reagan invited Prime Minister Seaga to be the first Head of State to visit him. Three weeks after the elections, the commercial bankers in the U.S. worked out an agreement with the Jamaican government to pay interest on the $450 million in outstanding loans. Pending the results of IMF consultations in December 1980, they agreed to work out a package of aid to the Jamaican government. This turned out to be favorable and the government got back into the good graces of the IMF and U.S. commercial banks. Three weeks after the elections, the government and the U.S. announced a reduction in crime and a boom in the tourist industry, an industry that had

---

[51] The New York Times, November 15, 1980.

[52] Ibid.

been hurt commercially by bad publicity in the United States.

Early in 1981 the formation of a joint U.S. and Jamaican committee to oversee Jamaica's recovery was announced. In was headed by David Rockefeller, Chairman of Chase Manhattan Bank.

> The members of the American committee, described by a White House news release as an 'initial steering group' are: Mr. Frank Borman, Chairman, Eastern Airlines; Mr. Charles Bludhorn, Chairman, Gulf and Western Industries; Mr. John C. Duncan, Chairman, St. Joe Minerals; Mr. W. H. Frome George, Chairman, Alcoa; Mr. Howard C. Kaufman, President, Exxon Corporation; Mr. Cornell C. Maier, Chairman, Kaiser Aluminum and Chemical Corporation; Mr. Seymour Milstein, Chairman, United Brands; Mrs. David P. Reynolds, Chairman, Reynolds Metals Co.; Mr. Curt R. Strand, President, Hilton International.[53]

They were all representative of multinationals with vested interests in Jamaica from bauxite, oil, tourism and food importation. It seems Manley's cry that above all, "We are not for sale," was lost in the wind. Manley had sought diversification of loans and trading partners so that he would not be totally dependent on the U.S. capitalist class. The possibility of aid from Eastern bloc countries was also explored, but Manley felt there was not enough time to develop the diplomatic and trade relations on which such aid would be based. There were limits on the amount of aid available, and the amount of time it would take to receive "it". The U.S. government gained more influence over theJamaican economy as to how it should be developed. Mr. Arthur Preeg was designated by Secretary of State Alexander

---

[53]The Jamaica Daily Gleaner, April 19, 1981.

Haig and was attached to the Office of the Undersecretary of Economic Affairs at the State Department to coordinate the U.S. style recovery of Jamaica.[54]

Another important point is that the crime situation in Jamaica had not changed dramatically. Yet, the reports in the U.S media are all favorable. It was rumored before the elections that Cuban intelligence forces were dispatched to influence the elections. But instead the security forces have recovered "one hundred and ninety-two firearms including 53 M16 rifles, 19 submachine guns, and 22,857 rounds of ammunition. . . "[55] It would appear that the reverse would be expected - Cuban or Russian arms. Rather, it is clear that the U.S. had responded to Mr. Seaga's plea, ". . . if ever there was time for an umbrella policy to be framed, that time is now."[56]

The IMF reopened negotiations with Jamaica and this was the signal for the multinationals and commercial banks to invest in Jamaica. The IMF loan of U.S $640 million dollars gave Seaga confidence that he could manage the Jamaican economy.

> Prime Minister Seaga has assured the country that the impending IMF agreement will have positive implications and ensure adequate funding for basic commodities, raw materials, fuel supplies, and debt servicing. Mr. Seaga has told Parliament that the agreement will not involve devaluation, any specific requirement for lay-offs, in

---

[54]The Jamaica Daily Gleaner, April 18, 1980.

[55]The Jamaica Daily Gleaner, October, 14, 1980.

[56]The New York Times, January 24, 1981.

> the public sector, or for a cut-back in the expenditure. It may be that the crisis of financial confidence having passed with the Manley government, the JLP administration anticipates greater flexibility in the IMF's conditionality.[57]

Despite Mr. Seaga's positive outlook, there were certain restrictions to the loan.

1. observance of the limit on net bank credit to the public sector from the domestic banking system;

2. observance of the limit on the net domestic assets of the Bank of Jamaica aimed at keeping inflationary credit creation under control;

3. achievement of targets for the net international reserves of the BOJ;

4. observance of the limit on new external borrowing, both direct and guaranteed, by the government; and

5. observance of the obligation not to introduce multiple currency practices or to introduce new restrictions on payments and transfers for current international transactions.[58]

Mr. Seaga was well aware of IMF conditions and he expected the conditions that were laid down because he was in agreement with the IMF ideology. He stated:

> New agreements with the IMF will only suffer the fate of the old agreements - failure succeeded by failure, until the Government accepts that the basic problem is not economic but political and ideological.[59]

This is the point Michael Manley has always insisted on. The difference is that Manley wanted to be free from dependency, while Seaga depends on the U.S. good will.

---

[57]<u>The Jamaica Daily Gleaner</u>, March 8, 1981.

[58]<u>The Jamaica Daily Gleaner</u>, April 10, 1981. (The IMF concern is that there should be adequate amount of reserves in the BOJ for private sector).

[59]EPICA Task Force, op. cit., p. 104.

CHAPTER V

RESULTS OF QUESTIONNAIRE ADMINISTERED TO THE JAMAICAN ELITE

The IMF is a household name in Jamaica, but not many understand it or know why the IMF plays such an important role in their lives. To a great many people its political connotation is known as "Is Manley's Fault and the Impossible Monetary Fund." There are those who are anti-IMF and others who are pro-IMF; Milton Friedman advocates its abolishment and refers to it as a bunch of incompentent bureaucrats.[1] Yet for others it is the savior of the world and President Reagan supported expansion of the Fund.

This questionnaire addresses the internal dynamics of the Jamaican society, its government and its external relationship with the IMF. The 13 persons selected are part of the ruling elite. They include industrialists and entrepreneurs of the left and right, members of the news media, the clergy, government officials who participated in the IMF negotiations, and labor leaders. The group is small for several reasons. Although the IMF's policy affects every Jamaican, only a few are aware of its implementation, also there are few persons directly involved with the IMF.

---

[1]Newsweek, October 23, 1983, p. 42.

To this end the questions are general rather than specific in order to cover the broad macro aspects that were under continuous discussion during the Manley government's tenure. The individuals interviewed represent broad areas of Jamaica business and culture. It is important to assess their knowledge of the IMF and its operation because they are the ones who were responsible for implementing its condition or advising others as to its import.

The IMF deals with difficult monetary matters and exchange controls which are not readily understood by all. The questionnaire allows us to appreciate the dynamics of the Jamaican and IMF relationship among principal actors. Was there cooperation from this group or opposition? A government is more effective and insistent on its conditions if it has the undivided support of its people. The different actors in the Jamaican society were not of one mind, hence the difficulty in Jamaica and IMF relations. The Manley governments' position was that IMF continues dependency and there are few cases of IMF successes. There are many in Jamaica who do not agree.

Question 1a. How would you define development?

All responded that is was a combination of social and economic factors. Nine respondents were emphatic that unemployment is the major problem and one respondent went so far as to say "it has been the major problem for Jamaica in the last 150 years". The members of the business sector and the labor leaders were the most concerned with unemployment.

Question 1b.

Dudley Seers defines development as:

> The questions to ask about a country's development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt, this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result development even if per capita doubled.

In what ways do you agree or disagree with this?

All agreed basically with this definition; many of the respondents in answering 1b. gave definitions of development somewhat similar to Dudley Seers. Yet four of the respondents did not favour the methods used by Michael Manley to effect these changes. One respondent said emphatically "that a market economy was more cyclical, that employment will fluctate according to economic trends. Poverty and inequality have always existed and there are no short term, fix it methods that will change them dramatically."

Question 1c. Would you use this definition as a working framework for Jamaica?

There were 12 respondents who said they would use the general definition for development. One participant felt that the most pressing problem was the short run inability to earn foreign exchange and to put demand and supply in equilibrium.

There was concern about how the rising tide of economic expectation would be fitted into a developing country that had to make choices between addressing the basic needs of the masses of the society and at the same time satisfying the lifestyle of conspicuous consumption of the middle class.

Question 1d. Has the Manley Government effectively changed any of the above?

All agreed that there was some attempt at change. Eight respondents were emphatic about the real gains by the PNP especially in addressing inequalities, the passing of minimum wage, equal pay for equal work, Employment/Termination Act, land lease and food farms. Three respondents thought the plans fell short of their objectives.

The overall responses reflected the various interests of the participants. The only surprise was the business sector's concern for more employment as compared to more profits.

Question 2. What were the major factors causing a deviation or failure to achieve these plans?

Seven blamed the problem on external factors such as world inflation, world recession and internal problems of inablity to achieve loan assistance to meet the deteriorating balance of payment situation, U.S. covert action in the Western banking situation, lack of private sector confidence and investment, and local sabotage of the private enterprise.

Four responded that there were some rather good sounding programs and ideas for change, but gross mismanagement made shambles of the entire project.

Two said a combination of local and foreign factors caused "our" problems.

There were the eight respondents who believed that the United States had interfered with the Jamaican economy. Not all were agreed that this was inherently bad because it was brought about by the excesses of the PNP. They felt that the United States and the IMF were destabilizing the country and ought not to have done so. Three respondents were of the opinion that the U.S. had not interfered.

Question 3. What should be the Government's role in development?

All agreed that a government should play a vital role in a country's development. But there were variations as to what that role should be. In trying to quantify the government's role, some had it 80 percent government and 20 percent private sector and vice versa. The extremes were "The government should encourage, promote, facilitate and spearhead high risks or those link aspects not being accomplished by the private sector." The opposing view was: "The government should have total control over the allocation of funds and should encourage the expansion of industries and give funds to the private sector, then the economic and social benefits would result."

This response expressed the general view that the public sector was doing more than was necessary or that they could manage, while the advocates of a more equitable society believed the public sector needed to be expanded even further.

Question 4. Do you advocate a free market system, a planned system or some combination of the two?

Eight respondents believed in a mixed system, while 3 were for a free market system. Two favored a planned system. The free marketers were concerned with the free flow of supply and demand and believed that government interference by both the PNP and JLP had caused havoc to the economy. Those who favored a mixed economy pointed to the fact that even the U.S. government had regulatory bodies. If it were otherwise, the law of the jungle would be applicable. The two advocates of a planned system said the only way the country can be turned around is that the priorities set out by the government should be implemented.

Question 5. In what areas was Jamaica weakest under Manley?

There was no consensus on this question, but reasons varied as to why Manley's government fell:" (a) the supplies of goods needed for industrialization of the country were inadequate, also the markets for finished goods should be expanded; (b) the quality of the civil service has deteriorated. It is bad government to use the civil service to solve unemployment. The salaries offered by the government are too low; as a result, the elite of the professionals are attracted to private enterprise. The government tried to solve its financial problem by printing more money. It also forced the Jamaican businesses to become corrupt by the stringent policies on the private sector. They tried to control the market by introducing price controls. The bauxite levy was squandered away under poor planning. In both the free market and the planned systems, Jamaica is weak. Coming out of a mercantile background, Jamaican enterpreneurs still feel like traders rather than producers, and have traditionally abused the consuming public. We have been poor planners as evidenced by the growth of unimportant manufacturing like buttons and shoe laces, while we ignore meat processing and other food handling ventures."

There were indications that certain plans were not implemented properly and the flight of skilled persons left many gaps in the personnel to manage certain new plans of the government.

Question 6. What were its areas of strength?

The answers varied. "The government did a good job in promoting self-sufficiency. For the first time the need to earn foreign exchange through our own means was emphasized. It was successful in motivating production in the non-traditional sector. This was not a function of the government alone. Jamaica's economic strength lies in its comparatively competent administrative approaches (1955-72) and the general population's ability to be creative and industrious. The government made great strides in addressing social injustice. The idea of collective farms was great, but its implementation leaves much to be desired. The government did not have a plan and the little planning they did was incomplete. No government should polarize its populace. The PNP antagonized the private sector and the middle class and caused conflict between them and the masses."

The overall impression was that there was great activity within the government towards change; some were successful, but others were not because too much was attempted in too short a period. A minority believed that enough was not done and the changes were too slow.

Question 7. To what extent has the country's development corresponded with its development plan?

All agreed that there had been flaws in the government plans. There was a range of responses. In the '50s and '60s import substitution and industrialization by invitation did not have the expected results. In the '60s a continuation of that policy and little planning led to widening income disparities. In the '70s, structural readjustment met with confrontation and sabotage. In the '80s, further adjustment is being interpreted and manipulated by the quick buck mentality. The government has been bedeviled with problems in agriculture. The formation of agricultural cooperative was very important by cutting out the middle man, but the cooperative struck against themselves because things were not explained adequately.

Four said the major funding the IMF is from DCs and they are operating within the market system. The LDCs have to develop good money management and savings of their own economies. Most LDCs think that they can achieve the same level of development as the DC's, but DCs' economies are the result of several hundred years compared to the unrealistic 20 years that LDCs have tried to develop their economies.

Three thought the bank needed drastic changes and called for a complete new organization based on more equity.

The responses to this question were mixed. There were those who have problems with the IMF's bias towards DCs and high conditionality. They believe that the extent of the problem can be alleviated by IMF adjustment in respect towards LDCs. There were others who think that the IMF is an efficient banking enterprise, and the loans having been disbursed along sound banking guidelines. A minority would have the total structure revamped because the IMF is imperialistic.

Question 16. Is the issuance of Special Drawing Rights a step in the right direction to solve the world's liquidity reserves problems? Comment on its likely impact.*

Eight did not know enough about the Special Drawing Rights to comment.

Three responded that an ongoing problem of the IMF is its limited funding. The SDRs are a move in the right

---

*This question was intended for the specialized Jamaican technicians that had negotiations with the IMF, hence it was not surprising that others failed to answer.

Question 9. State briefly your impressions of the IMF as a viable arm for development.

Six considered the IMF a bank of last resort or just a bank and as such, he who comes to borrow money should do so by the guideines of the bank. Their responses were the LDCs were putting blame on the IMF to cover up their money mismanagement. The IMF had done a creditable job in averting international money disaster. Its true role is to help desperate countries -- a kind of lifeboat role.

The IMF for many is a kind of international commercial bank, and as such has not met with success in LDCs, but the LDCs have no alternative but to remain with the IMF.

Five thought the bank has a monetaristic approach to development and is inappropriate for the Third World in the second half of the 20th century.

Two said that it can help and were it not for institutions like the IMF the world would have more financial problems.

Question 10. How effective is the IMF in helping developing countries?

Ten believed that the IMF is not effective in helping developing countries. This is so not because the organization is inherently bad. The reasons given were varied. The IMF is a macro economic system and it cannot deal with the micro problems of its numerous members; neither does it have the personnel, capital and technology to do so. It is a bank of last resort and is geared to bail out operations. The IMF in certain cases might have delayed disaster, but it has never given genuine assistance to any developing country. It uses financial control to subvert sovereignty.

Three are convinced that the IMF can help and will help. Its major task is to oversee a macro world economic system. It has been instrumental in working out the right price for a country's money, and in so doing it facilitates exports and restricts imports. It should be asked to form an economic plan, not to implement one.

The latter responses came from those who believed in a monetaristic solution to Jamaica's problems, and they were opposed to what they thought an incompetent government was doing in an effort to become more self-reliant.

Question 11. From what you know, has the IMF structure made for a more effective management of the world's economy? If not, suggest a more preferable structure.

Eight thought it was not effective. It does not have sufficient funds to carry out its programs. The bank officials are too distant from the everyday operations of member countries.

Five said it can be improved, but in the absence of anything else, it has been effective in the controlling of foreign exchange funds. It serves as the guru for monetarist policies (the theory that loans from banks are constrictive or expansionary). The world would be far more unstable without the IMF to oversee certain monetary problems. The improvement they would like to see is more involvement of the private sector in IMF consultations and more trade of finished goods to the developed countries.

Question 12. Do you think the IMF is politically neutral?

Eight believe it is not neutral for different reasons. "In its present state, it does not address Third World problems adequately; development is being guided by northern attitude of monetaristic thinkers. The IMF is greatly influenced by its major contributors which happen to be the developed countries. The IMF personnel by training are pro-private enterprise. The Third World countries guard their newly found independence jealously and will not allow any organization to infringe on their political rights. IMF should not be called upon for development. That is the role of the private sector and governments of the individual countries; rather, it should be used to upgrade basket cases."

There were those that responded adversely to the IMF operations and would advocate its disbanding and a new, more equitable organization formed because it is too capitalistic and serves only the interests of the U.S.

Three felt it is politically neutral, its major concern is not development or imperialism because it serves countries both of the East and West and they are given fairly equal treatment in the working out of a stable monetary system. "We who are newly independent still have a parent/child relationship between the DCs and the LDCs, and the developed countries have certain responsibilities to some of their former colonies."

The consensus is that the IMF technicians are capable and do a fairly good job, but because they are trained in the West, they are biased towards that system.

Question 14. Are there any changes you would make in the IMF?

All agreed that there are changes needed. The IMF has to change its image so that the man in the street is not as frightened of its operations as the harbinger of bad news. The IMF should expand to include the private sector and the unions. If one is planning for economic development these sectors are vital. The research that the IMF does should be made public so that everyone can work towards the goals that are set.

Question 15. Is there a need for the IMF to become more representative?

Six would want it to be more representative; also, borrowing countries should have a say at the policy-making level. Although there are many who view the IMF as a commercial bank, it has a far more important role than a mere commercial bank. Its purpose is to oversee a world system and strict monetary policies are its goals. Commerical banks are geared for profits, but the IMF controls world monetary stability. We know what the results are when commercial banks try to play that role in the bankrupt economies of Brazil, Argentina, Poland and others.

Four said the major funding the IMF is from DCs and they are operating within the market system. The LDCs have to develop good money management and savings of their own economies. Most LDCs think that they can achieve the same level of development as the DC's, but DCs' economies are the result of several hundred years compared to the unrealistic 20 years that LDCs have tried to develop their economies.

Three thought the bank needed drastic changes and called for a complete new organization based on more equity.

The responses to this question were mixed. There were those who have problems with the IMF's bias towards DCs and high conditionality. They believe that the extent of the problem can be alleviated by IMF adjustment in respect towards LDCs. There were others who think that the IMF is an efficient banking enterprise, and the loans having been disbursed along sound banking guidelines. A minority would have the total structure revamped because the IMF is imperialistic.

Question 16. Is the issuance of Special Drawing Rights a step in the right direction to solve the world's liquidity reserves problems? Comment on its likely impact.*

Eight did not know enough about the Special Drawing Rights to comment.

Three responded that an ongoing problem of the IMF is its limited funding. The SDRs are a move in the right

---

*This question was intended for the specialized Jamaican technicians that had negotiations with the IMF, hence it was not surprising that others failed to answer.

direction, but it is still too heavily influenced by the major currency. An expanded IMF can give more liberal loans to the LDCs and they should be able to follow IMF guidelines.

Two within this response said the amounts given by the IMF are too small and restricted to particular sectors; they should be given for all areas of development.

Question 17. Do you believe OPEC has adopted the proper strategy in demanding a more realistic pricing for their oil?

All agreed that something had to be done about the price of products from the developing countries. The OPEC countries did not use their windfall profits correctly. The other LDCs formed a common bond in helping OPEC realize its goal, but it in turn did not do them justice. The Manley government made gains on its bauxite levy, but it squandered the money on fancy projects that did not get off the ground (the sugar cooperatives, the education program from birth to university and the state trade cooperative).

Question 18. Would you characterize the 1980 elections as IMF influenced.?

Six were of the opinion that the IMF influence was neglible, if any, on the elections. "The people were tired of an inept government and wanted a change. It might have started out as IMF influenced, but the political violence that came later changed the picture completely. Never in the history of Jamaica had there been so much violence.

There must have been some forces unseen that caused so much violence (outside influence). The problem started in 1979 when the PNP lost political credibility and the government was operating in a counter clockwise movement from the people. The problem of unemployment has never been solved by western governments and the promise for improvement has always swayed the electorate. The IMF was made a domestic issue by the PNP to cover up its mismanagement."

Five responded that the IMF had a definite hand in influencing the elections. The government did not receive half of the money pledged to it by the IMF at the critical stage, when the funds were needed. Most of it was withheld. (See Table 4.5.)

Two felt there was direct evidence that the United States and the IMF acted together in destabilizing the government (but they did not provide any specific evidence). The fact is that the IMF dictates constricted the economy and the gains of the masses declined. This had the effect of breaking the new coalition of the Manley government. The working class which had been attracted to the party because of government spending began to defect. Therefore the IMF policies had adverse effects on the government.

Question 19. Did the IMF act fairly in not granting waivers toward Jamaica in the light of natural disasters (1979)?

Ten felt they did not. The government was making a gallant effort to deal with its problems, but the flood rains of the western parishes had serious effects on agriculture. In addition, there were extensive funds spent on reconstruction of the area.

Three felt that natural diasters are part and parcel of a given country. Although they are unfortunate and other agencies can help, the duty of the IMF is to advise on monetary policy and not on every misfortune of a particular government.

Question 20. Are the new IMF arrangements to the benefit of Jamaica?

Nine said they are not, if one judges the performance of the government and the economy under the new arrangements. "The arrangements are not so good as they seem, and the Seaga government will soon run into problems because his fiscal management is too loose. There is a great need to tighten the free spending in the economy. What they seem to be doing is putting up foreign currency to liquidate foreign debt and to stabilize that aspect, while development, inflation, unemployment, poverty go unattended."

Four felt the Jamaican economy was lucky it had an international organization like the IMF to bail it out of the economic woes it found itself in. "The IMF imposes economic targets that a country should live within the resources it has. We really did not have a choice in accepting IMF arrangements. The IMF has given Jamaica a good start, although some of the programs need more flexibility."

An Overview of the Questionnaire

The Manley government was most successful in attacking the structure of the IMF. Most of the respondents thought it needed change. Three respondents thought that the IMF, in the absence of an alternative, was making the best of a bad situation. If it were not around, the world's monetary crisis would be even graver.

On the performance of the Manley government, the overall response was favorable. There was need for change, and the Manley government made attempts to do so. The entrenched business sector response was that the change was too traumatic at times and did not allow for proper adjustments, hence irritation and conflict. A labor leader and new left businessman thought the changes were not enough and did not address the structure that was the cause of the problem. One respondent thought that the changes caused the situation to become worse.

The response to the role government should play and what system was best indicated that a mixed system is the overall choice. The opinion is that government of any extreme would not be tolerated by the Jamaican populace. Sentiments were expressed for a free market system, supply and demand and access to the international market place. The only hope for an economy like Jamaica is to exploit its proximity to the United States and take advantage of the market potential of the United States.

Although a majority thought the IMF was partial, this response did not necessarily help the Manley government's position. A partial IMF has loaned money to its friends of western capitalism. One of the responses was the unpredictability of LDCs and the IMF has to take certain positions to bring them into line. A prime example was the Manley government and its many experiments. Manley's position was vigorously supported by three respondents who would have nothing to do with the IMF. The Jamaican officials who negotiated the IMF agreement felt that conditionality was too harsh and the adjustments needed improvements.

The Manley government favoured an IMF that represented the interests of LDCs more rather than the DCs. The view that this could not easily be changed and that some conditionality was necessary was shared by a broad cross section. It would be asking too much to borrow money without accountability. The undertones suggest that the Manley government accountability left much to be desired.

The Manley government came under some harsh criticism for its vacillation between the socialist and capitalists paths. The response from the right was that his indecision about stating clearly his position on which system he favoured created uncertainity and confusion. Investors from abroad were not encouraged, production at home lagged, and the several government interferences such as taking over the hotel industry, nationalizing the banks and the state trading corporations were detrimental to the Jamaican economy. A small group on the left thought the private sector was greedy and government planning was necessary to give the masses some gains.

On the tax structure issue, everyone agreed that it was in shambles. The business sector (except for the independent businessmen, lawyers, doctors and the urban petty traders) thought they were over taxed because their funds are easier to account for, similar to the employees. The informal sector (the urban petty traders) were not taxed enough, also the professional class, which still reflects the privileges associated with colonialism favouring the expatriate colonials.

The IMF got an overall favorable vote by the margin of seven to six, but for conflicting reasons and varying positions. The entrenched money class figures there is need for an institution to make funds available, and it is better to get money from the West than the East. We do not know enough about their system, their terms hardly involve hard cash. There is the view that some agency should be overseeing the government's reckless spending and that LDCs need the IMF style of management. The minority opposed to the IMF sees its macro aspects and its broader policy guidelines. The government officials who had represented the government's position during the IMF negotiations felt there were structural changes needed at the IMF rather than the piecemeal changes.

There was general agreement that OPEC did the right thing and that the Manley government did well in forming a bauxite cartel and putting the levy on bauxite. Two respondents thought it unwise that the government should have challenged the United States because the U.S. need for bauxite is not as important as Jamaica's need to remain friendly to the U.S.

The responses to the effect of the IMF on the Manley government indicate the division in the populace the government faced. Six responses said the IMF influence was negligible and that the government had backed itself into an unfavorable position by its policies. Five persons thought that the government was adversely affected by the IMF and two persons alleged direct interference by the U.S. and IMF.

Concerning the natural disaster of 1979 (the flood of 1979), ten persons thought it should have been mitigating circumstances for IMF assistance, and that the government got a bad deal on that score. One person thought the government should have been able to adjust to national disasters.

The consensus was that increasing IMF involvement in Jamaica was not beneficial, but four persons thought the country could not function properly without the IMF. The above analysis shows the problems faced by the Manley government. Its hands were tied throughout the IMF -Jamaica relationship. There were those that felt the government's failure to meet the various IMF tests was proof of its ineptness (the three month's tests in 1977). (See Chapter

4.) Others believed continued IMF involvement meant doom. Manley was torn between the differing forces, and his compromise to this group at one time and that group at another gave the impression that his leadership was indecisive. It did not help also in his talks with the IMF because the Fund's officials realized he was not bargaining from absolute strength and was therefore vulnerable.

The dictates of the IMF and the plan set out by the Manley government were diametrically opposed. The Manley government's objectives were to address the historical problems of landlessness, unemployment and inequality. The IMF concerns itself with exchange rates and accessibility of the private sector to become more industralized. The influence of the United States and general capitalist philosophy of the IMF led to eventual conflict between the two.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

The International Monetary Fund is one of the most maligned international organizations. At present, both the developed and developing countries are expressing concern about its operations. But in fairness to the organization, it was never given the wherewithal to function at its highest level of efficiency.

It is hoped that this research has pointed out the dilemma that the IMF has always operated under. The Fund's capital, from its inception, was not large enough to satisfy the needs of the broken down economies of Europe and Japan; it was even more inadequate for the global economy of today. This fact is easily substantiated. The United States, under the Marshall Plan, loaned western Europe $17 billion dollars for reconstruction, yet the IMF's starting capital was $8.8 billion dollars.[1] The aggregate debt of the developing countries alone amounted to $700 billion dollars and the IMF operating budget 1983 stood at $50 billion dollars.[2]

The limited liquidity of IMF funds places added pressure on the U.S. dollar. The debtor countries like

---

[1]Fred Block, op. cit., p. 43.

[2]Washington Post, October 19, 1983.

Argentina, Mexico and Brazil, for their part, suffered because they were blocked from competing in the capitalist markets. We experienced the most unlikely scenario of a Republican President requesting an additional $8.8 billion dollar increase in U.S. contributions for an IMF operation fund of $90 billion dollars.[3] In order to convince the Congress the President had to overcome hostile criticism for his perceived IMF bail out. At work was the curious spectacle of conservative Jack Kemp and liberal consumer protectionist advocate, Ralph Nader, agreeing that the United States should not increase IMF funding.[4] Their reasons were different. The former objected because the IMF is perceived as an international organization that lends money to countries hostile to American interests and are irresponsible in the use of this money. The latter saw this as a bail out of the international commercial banks (especially the U.S. banks) that loaned huge amounts of funds to some advanced developing counties and socialist countries.

Whatever the reasoning was, it has been the plight of the IMF over the years to operate in support of United States foreign policy because it is its major donor. The organization, therefore, has always been handicapped in achieving its fullest potential. Loans were generally given

---

[3]Pedro-Pablo Kuczynski, "Latin American Debt: Act Two" <u>Foreign Affairs</u>, Fall 1983, pp. 19-38.

[4]<u>Newsweek</u>, October 23, 1983, p. 34.

to countries within the U.S. sphere of influence, and others rejected like Poland and Tanzania when they were perceived to be attacking U.S. foreign policy.

Although the IMF has not accomplished monetary stability, it has fostered international cooperation. There are many who predicted the collapse of the world monetary system, especially in 1971 when the United States decided to break away from adjustable fixed exchange rates and the backing of the dollar by gold at thirty-five dollars an ounce. It was thought that the major countries would adopt beggar-my-neighbor policies by resorting solely to national interests rather than the common good; but thanks to the IMF in part, there was an element of international cooperation that staved off a world monetary collapse.[5]

The IMF was conceived to function in close cooperation with the International Bank of Reconstruction and Development. Although their functions complimented each other, the IMF had the onerous task of dealing more directly with the political problems of the nation states. It purported to be politically neutral, but the two major socialist countries (Soviet Union and China) were never effectively members of the IMF and IBRD -- a limitation somewhat similar to the United States not having been part of the League of Nations. The difference was that the

---

[5]Thomas D. Willett, Floating Exchange Rates and International Monetary Reform (Washington: American Enterprise Institutite for Public Policy Research, 1977), p. 126.

western world led by the United States controlled 80 percent of world trade, hence the socialists countries' participation was more of a political factor than an economic one.[6]

The division of the two meant that the IMF was influenced by Western economic and political concerns. Furthermore, the United States, its major donor, was committed to the resistance of communism, which is included in its foreign policy and reflects certain dictates to the IMF. In the past loans have not been forthcoming to communist regimes unless their political conditions are favorable to western interests, for example, Poland in the 1970s. The IMF at one time was willing to help Poland, but changed when the U.S. disagreed with the regime.

However, at times the United States suffered from bad publicity in developing countries because it had to play the role of the defender of capitalist values, when in fact LDCs were affected by the totality of Western capitalist exploitation. Because if the other developed countries were concerned about the plight of the LDCs they had enough weight and voting power within the IMF to make it more responsive to LDCs' needs and participation in policy decisions. So the lack of initative for a more responsive

---

[6]I. Wallerstein, "The Three Stages of African Involvement in the World Economy" in Gutkind and Wallerstein, eds, The Political Economy, Sage Publications, 1976, pp. 169-197. Although these states were not denied membership, the terms and articles of the IMF agreement would interfere with a socialist planned economy. Hence China has joined since its policies have changed.

IMF involved the other western countries as well as the United States.

Joan Spero has pointed out that political, as well as economic factors shape the international climate, and what we see in the international arena today is a debt ridden Third World (see Table 1.2), increasing unemployment and mass starvation. Also, the most powerful capitalist country, the United States, is in an unstable position:

> . . . for example, the federal deficit. By official reckoning government spending exceeded income by a disturbing $195.4 billion in the fiscal year ended last September 1983. But that's just the beginning. First there's the $12.4 billion lost by 'off-budget' agencies like the U.S. Railway Association. Then there's the $53.3 billion borrowed by government-supported entities such as the Federal National Mortage Association or the Student Loan Marketing Association. And finally, the government should be setting aside at least $186.1 billion to fund future pension and social security obligations. Altogether Grace concludes, the real federal deficit last year amounted to an appalling $447.4 billion.[7]

When the national debt of $1.49 trillion dollars and its $85 billion annual debt service is brought into the equation, one has to conclude that the world is dangerously poised for catastrophy.

The IMF was formed so that the world would not be faced with the above mentioned problems. But the major donors insist that LDCs abide by IMF dictates while they operate outside of the IMF, because they would fail IMF guidelines more dismally than the LDCs. Britain, in particular, draws heavily from the IMF and so does the U.S.

---

[7]Newsweek, December 12, 1983.

from time to time. No LDC could run a balance of trade deficit for ten years, have an unbalanced budget for several years and increase its national debt every year and be a recipient of IMF loans. So although the IMF has been able so far to have a certain semblance of international cooperation, its policy is geared towards the LDCs and not the DCs where bilateral agreements are the device for solving their problems. Yet the IMF was formed initially for cooperation between the DCs, but now we are told they are the most efficient advisers for LDCs. If the terms of agreement were the same for LDCs and DCs, the LDCs would be at a disadvantage because of their weaker economies and undeveloped position.

The IMF and Jamaica

The JLP might have been tempted to follow the IMF conditions to the letter, but how could the masses of people have benefitted if the public sector, which is of necessity the agent of help to them, is drastically curtailed? This points to one of the foremost problems the Manley government faced concerning the IMF.

The facts presented in this paper will allow us to interpret and draw some conclusions about the developing world's problems, in general, and Jamaica's, in particular. It would be foolhardy to blame all the problems of the developing countries on the developed states and particularly on the U.S. The LDCs would be well advised if they take the advice of ul Haq to follow the Chinese model of addressing mass poverty, rather than the econometric mystical one thousand dollar (U.S. $1,000) per capital income.[8] Most developing countries have within their first five-year plan or ten-year plan to have a per capita income of $1,000, this being the mystical number most international organizations consider a country to be on the road to development. Also, it is preposterous that the LDCs should demand changes in the international economic order for the benefit of the elite in their countries. It would be circular and misleading if such a change did not incorporate and benefit the masses -- a proposition easier said than done. Because of the years of deprivations, the masses in the LDCs have not learned what are the best measures to alleviate their suffering. The natural impulse is towards conspicuous consumption and not collective self improvement as shown in the Jamaican people's choice of Seaga's economics. The demand will be for cars and not for the broader based public transportation. While one has to guard against a condescending attitude towards the masses, it is the duty of the leaders to make the necessary, but not always popular decisions for general development.

The government has to lay down the priorities of full employment, increases in exports and decreases in imports. The IMF technical expertise is respected by most countries and can then help to alleviate the problem.

---

[8]Mahbub ul Haq, p. 180.

> The IMF acts not only in the role as an observer and analyst of monetary situations. It is also supposed to guide world monetary policies, with goals that are defined in the statutes of the IMF: monetary stability and free convertibility or a system of multilateral payments. On the other hand the members of the IMF represent sovereign nations which determine their own monetary policies, even in defiance of IMF advice.[9]

Herein lies the crux of the matter. The IMF is a reputedbody of financial experts, it has a set ideology in the granting of loans. Barbara Ward advocates structural changes in the IMF itself,

> that the more liberal Keynesian Plan of a Clearing Union be adopted to alleviate the pressure on some $800 billion U.S. dollars floating around the world. If countries lose faith in the U.S., there is a likelihood that the World Depression of the 1920s can be repeated. Cooperation is needed. It is necessary to change the structure of the IMF to reflect the Northern democracies, OPEC and the Third World, to all having a third of the votes each. In this forum, more meaningful decisions can be reached.[10]

Foreign Minister Nselka of Tanzania suggests that the capital fund be expanded, and he would rather change the present sixty-two percent to thirty-eight in favour of developed countries to that of fifty percent each for LDCs and DCs[11].

The overtures of the Seaga government and the response of the U.S. and the IMF at the change of the government indicates that the IMF is used as an arm of U.S.foreign policy. If the organization is to play an

---

[9]Barbara Ward, "Another Chance for the North " Foreign Affairs, Winter, 180-81, p. 386.

[10]Ibid., p. 188.

[11]Africa News, April 12, 1980.

improved and responsible role in world reconstruction, it will have to reflect less bias in its operations. It would be instructive to the Jamaican government to be reminded that foreign investment had caused a boom in the economy before, but because of its failure to impact on the masses, it was short lived, and in the long term, not beneficial to the country.

> What they would have you believe is that we, if we abase oursleves at the seat of imperialist power in the world, that somehow money will come like manna from heaven. Well, let me tell you, comrades, we tried that from '62 to '72; we tried the labor party approach from '62 to '72 at a time when money was like dirt in the world, when there was every . . . climate in the world, for tourism, for aluminum expansion. And all that happened in Jamaica, unemployment rose from twelve to twenty-four percent. The few who were rich grew richer and richer and richer, and the poor grew poorer, and poorer and poorer. No way are we trying that in Jamaica again. No way! No way![12]

There are lessons to be learned by the several parties concerned. The U.S. should heed the call for a New Economic Order and allow the IMF technicians to give loans according to need (in so doing the IMF would have to differentiate between LDC the more needy the less the conditionality, and stricter conditionality to newly industrialized countries NICs) because in the final analysis the IMF needs to be a viable operation for meaningful long term goals. The IMF should change to reflect the hopes and aspirations of the world's people.

---

[12]Michael Manley, ABC Documenmtary, December 30, 1980.

The Politics of Change in Jamaica

The Manley government of 1972-80 inherited a political system that was totally dependent on the world capitalist system. The country shared in the western boom of the 1960s. But the bulk of the profits were repratriated and a small middle class rose up with an increasingly deprived lower class. The unemployment problem in Jamaica has steadily worsened since the 1960s.

The Manley government set out as one of its major objectives to reduce unemployment, to attack the inequalities in the society and improve the educational standard. He was somewhat successful in the latter, but not the others.

The unemployment situation was affected by the international world upheaval. Shortly after Manley's election victory in 1972 a major world crisis occurred. The OPEC boycott of oil exportation to the west and the increase in oil prices meant contraction in the international community. Jamaica, a country that is 98% dependent on oil imports, had to severly cut back on her overall production capacity (manufactured goods, transporation and use of public utilities).[13] The OPEC increases merely exacerbated a worsening world trend of terms of trade against the LDCs.

The government was hard pressed to maintain the level of employment, and it was almost impossible to reduce it.

---

[13] Jamaica: Development Issues and Economic Prospects World Bank Report No. 3781-JM, January 29, 1982.

The government introduced a massive work programme to impact on the urban poor. An attachment of the programme was the Adult Literacy Programme, which was intended to upgrade the skills of persons involved in the work programme. The government hoped that these persons would upgrade their skills, but the priority then was on unemployment not on the skill improvement. There were several critics of the programme especially the middle class who would drive by protesting the laziness of the workers and the unproductive nature of their work. Professor Bourne is of the opinion that these programs should be delayed for more emphasis on balance of payments, savings, investment and import substitution.

What they failed to realize was the combined social value of the work programme. There is a miniumum wage that the workers received of $26 weekly, but it had the effect of giving them a definite pay check weekly that they could plan around. Also it had the multiplier effect of some fifty thousand additional consumers who would demand a higher consumption. It had the psychological effect of having something to do, and it forced persons employing domestic help to pay more because of the minimum wages.

The government was very proud of their programme because it impacted on many of the inequalities, it provided employment and it upgraded education, although it put a burden on the available funds and caused deficits. There are other inititatives the government undertook as listed in

Chapter IV. The IMF was most adamant about the dissolution of the worker's programme because they felt it was unproductive and undue government interference, and that the funds would have greater utility in the hands of the private sector.

The problem was that the programme cost the government $65 million and employed fifty thousand persons. In no other industry would $65 million hire more than a thousand workers. The difference between the Manley government and the IMF went to the heart of the contract. The government was most proud of its impact on unemployment and the work programs it initiated, but the IMF was opposed. The slight gains in employment in 1973-76 began eroding under the IMF agreement of 1977-80 and was one of the major factors in the government's break with the organization.

The Manley Government's Fight for a NIEO

The Manley government's foreign policy concerned the Western capitalist world. Like fellow Third World leader Tanzania's President Julius Nyerere, he attacked the international inequalities that adversely affected their countries. In the words of Nyerere:

> to buy a seven-ton truck in 1981, his country had to produce four times as much cotton, or three times as much coffee, or ten times as much tobacco, as it took to purchase the same vehicle five years earlier.[14]

The terms of trade have turned adversely against the LDCs,

---

[14] *Time*, January 10, 1983, p. 46.

yet there is no talk in the developed countries or the IMF of ways and means to address these problems. The GATT and UNCTAD had both failed hence the call for a NIEO by the Group of 77. At least the Ford and Carter administrations listened, but President Reagan would have nothing to do about the Third World plight.

In the economy of 1978-80 interests rates were very high and it was not easy to obtain loans anywhere. The IMF seal of good housekeeping was necessary for loans so countries could not afford to default. By 1983 there was a real threat of default. New York Financier Felix Rohatyn says, "The possibility of a country defaulting rather than accepting the IMF austerity demands cannot be dismissed out of hand."[15] And Stuart Greenbaum observed,

> Imagine you are a Latin dictator deep in debt. If you (accept IMF terms) and cut back on imports you get riots in the streets. If you accept default, you are ostracized by the world capital markets. Now if the first approach leaves you swinging from a tree branch, you know you are going to go the default route.[16]

The Manley government was committed to achieving equality and reducing unemployment in Jamaica, but the international lending climate had contracted, and Jamaica was faced with addressing its historical problems under austere IMF terms. It is little wonder that the government, having failed the IMF test of 1979, broke off relations with the organization in 1980 because the IMF was not willing to relax any of its

---

[15]Newsweek, December 5, 1983, p. 52.

[16]Ibid., p. 48.

conditions favouring the private sector and a more restricted economy.

Recommendations

1. There is need for political meeting of minds of the world's people to create an improved monetary system so that all can benefit from as equitable as possible a system. The world at present is on the brink on financial bankruptcy that will affect the capitalist countries, the developing countries and the socialist in devastating descending degree. One needs not be idealistic to recommend comprehensive solutions that in the past appeared unthinkable to the myopic world powers. What is at stake is man's very survival as the southern countries are becoming more desperate as the threat of mass starvation becomes more real.

2. The IMF should be restructured to live up to its potential as a world clearing union or central bank. In performing the role of a central bank, it would lay out fundamental conditions for eligibility to all member states. The least developed of the LDCs should get preferential treatment until they reach a determined level of self-sustained growth (See Chapter II). Then they would be liable for conditionality like the rest of other states. The World System should be on a barter system with international money available from the central bank to equate any difference or short falls between trading partners. The system would guarantee compliance by the fear

of becoming a pariah, if a particular country defaults on their commitments. In such a system the major obstacle would be how to control the multinational corporations, which at present make decisions outside of their national government and are oblivious to international organizations except for the regulatory ones.

3. The IMF automatic devaluation of LDCs currency should be stopped (in the past this is standard IMF recommendation), until a comprehensive system, based on resources, importance of resources, availability and equity in trading are calculated. The present system favours the DCs.

The rationale for devaluation is that it limits imports and expands exports. But the LDCs are generally exporting at their maximum in raw materials and secondary manfacturing goods. A devaluation for them means less revenue for their products. In the case of Jamaica, most Jamaican goods are in demand because of uniqueness. Blue Mountain Coffee fetches the higest price for coffee in the world, yet it is impossible to double production because of limited land area where it is grown; the same can be said for Royal Jamaica cigars. Jamaican bauxite production has fallen off although the price has been devalued to one third that of 1973 in 1980. This has effectively nullified the bauxite levy imposed in 1973. One is not suggesting that the demand for bauxite is inelastic but Jamaican bauxite is of strategic importance to the U.S. It is easily mined and is close to U.S. smelters, thereby creating a more favoured demand by U.S. companies. On the Jamaican side there is the possibility of new markets in Europe and the Soviet Union. These examples indicate that LDCs' problems do not necessarily respond to the economic prescriptions given by the DCs.

The middle class in Jamaica has not readily cut back on consumption, hence the Seaga government, like the Manley government, has drastically curtailed the importation of cars and household appliances, but still there is a thriving black market in these goods. The food items that were allowed to be imported by the Seaga government were used by the middle class to differentiate themselves from the masses who previously could hardly afford them and definitely cannot now. Unlike the developed economies, devaluation means increased hardships for the masses.

In addition, the threat of devaluation exacerbates the flight of capital. One would be foolish to keep one's money in a state that will devalue because it is worth less in international exchange. Yet the IMF recommended devaluation in a society already suffering from capital flight.

4. Multinational corporations should be controlled by their national governments and monitored by the IMF. They have been able over the years to move money and employment from country to country. In addition they are the greatest borrowers of funds from the national banks in

the countries in which they operate. This new impulse of imperialism should be curtailed. The problem not only affects LDCs, it affects U.S. workers. A system has to be worked out by which the nation states that are the home countries of the multinationals and the IMF manage international capital and tranfers because the present system is out of control.

This might well be the second most important concern, other than restructuring of the IMF, and it might be as difficult or more so to change. The MNCs are a law unto themselves, and because they are not soverign states they do not fall under the dictates of any international organization. In several cases, their sales exceed the GNP of many middle industrial countries and all but a few LDCs. It might take the collapse of the present system for them to take heed. It is, therefore, a conflictual relationship between them and the call for a New International Economic Order.

5. There should be more international concern for the plight of the world's poor. Developmental plans should be made to arrest their decline, and targets set for a minimum standard of living. The IMF and the World Bank should make special efforts to alleviate their sufferings. They should address water systems for the drought areas, storage bins for years of good harvest, educate the populace to understand their plight, and be more assertive in population control in certain LDCs.

6. The political directorate in Jamaica should be more sensitive in effecting changes. By its very nature, change is revolutionary and a people are always resistant to change, even if it is in their best interests. There were too many voices in the Manley government defining their particular notion of change which led to confusion.

7. There is need for ongoing political education of the populace. The major problem faced by the Jamaican people is its conspicuous consumption patterned after the Americans. The country should not try to copy the American standard of living. Yet there has never been a government strong enough to lay down the strict, austere programs needed to curb that trend. Most governments bowed to the strong pressure from the middle class in demanding more and replicating the United States standards. The individual governments' should determine what areas to cut back on in the national economy rather than the IMF.

8. The Manley government erred in its analysis of the dependency school. Jamaica is not a fourth world LDC, hence the Cardosa analysis is more appropriate than Frank's. The options open to Manley were to adopt an accomodation attitude that would satisfy the emerging middle class. This would entail the importation of technology and catering to the capitalist markets of the west. The other choice was to make a radical break from the capitalist system towards a Cuban style development.

9. The half way socialism of Manley was doomed to fail. The middle classes were too entrenched and they would always offer fierce resistance to any encroachment of their perceived rights. The Manley government itself was too splintered for the task on hand. Within the government itself, there were those that were opposed to socialism and were pro-IMF. For the structural changes that were needed, it would have taken a united party and possibly a one party system to implement them. The Manley government, if it was re-elected, would have had to define its strategy of development more clearly and would either have to have followed a socialist path of development or a capitalist one rather than the half way measures between socialism and capitalism. Failure to do so would only have led to continued confusion.

BIBLIOGRAPHY

Books

Acheson, A. L. K., J. J. Chant and M. F. J. Prachouny, eds. Bretton Woods Revisited. Toronto: University of Toronto Press, 1972.

Alfred, Helen, ed. The Bretton Woods Agreement and Why It Is Necessary. Citizens Conference on International Union, 1944.

Aliber, Robert Z. Monetary Reform and World Inflation. California: Sage Publications, 1973.

Augier, F. R. and S. C. Gordon. Sources of West Indian History. Kingston: Longman's Caribbean Limited, 1962.

Bauer, P. T. Dissent on Development Studies and Debates in Development Economics. Cambridge: Harvard University Press, 1972.

Beckford, George and Michael Witter. Small Garden Bitter Weed. Morant Bay, Jamaica: Maroon Publishing House, 1982.

Beckhard, Benjamin H. The Federal Reserve System. New York: Columbia University Press, 1971.

Belassa, Bela. Trade Liberalization Among Industrial Countries. New York: McGraw-Hill, 1967.

Block, Fred. The Origins of International Economic Disorder. Los Angeles: University of California Press, 1977.

Braithwaite, Edward. The Development of Creole Society in Jamaica. Oxford: Clarendon Press, 1971.

Brandt, Willy. Independent Commission on International Issues North-South: A Program for Survival. Cambridge, Mass.: MIT Press, 1980.

Clark, Paul G. American Aid for Development. New York: Praeger Publishers, 1972.

Cohen, Benjamin. Balance of Payments Policy. Baltimore: Penguin Books, 1972.

Cohen, Robin, Peter Gutkind and Phyllis Brazier, eds. Peasants and Proletarians: The Struggle of Third World Workers. New York: Monthly Review Press, 1979.

Curtin, Philip D. Two Jamaicas: The Role of Ideas in Tropical Economy, 1830-1865. New York: Greenwood Press, 1955.

Erb, Guy F. and Valerianna Kallab, eds. Beyond Dependency: The Developing World Speaks Out. New York: Praeger, 1975.

Gardner, Richard. Sterling Dollar Diplomacy. New York: McGraw-Hill, 1969.

Garvey, Amy Jacques. Garvey and Garveyism. London: Collier Macmillan, 1970.

Girvan, Norman. Corporate Imperialism: Conflict and Expropriation. New York: Monthly Review Press, 1980.

Haberler, Gotfried and Thomas Willett. A Strategy for U.S. Balance of Payment. Washington: American Institute, 1971.

Halm, George. A Guide to International Monetary Fund Reform. New York: Lexington Press, 1975.

ul Haq, Mahbub. The Poverty Curtain: Choices for the Third World. New York: Columbia University Press, 1976.

Hayter, Teresa. Aid As Imperialism. England: Penguin Books, 1972.

Horsefield, Keith. The International Monetary Fund, 1945-65. Washington: International Monetary Fund, 1967.

Hurwitz, Samuel and Edith Hurwitz. Jamaica: A Historical Portrait. New York: Praeger, 1971.

Karen, Koch. International Trade Policy and the GATT, 1947-67. Stockholm: Almwuist and Wilksell, 1969.

Lewis, Arthur W. The Evolution of the International Economic Order. Princeton, N.J.: Princeton University Press, 1978.

Lowenthal, David. West Indian Societies. New York: Oxford Univeristy Press, 1972.

Macessiah, George. The International Monetary Economy and the Third World. New York: Praeger, 1981.

Meier, Gerald M., ed. Leading Issues in Economic Development. New York: Oxford University Press, 1972.

________. Problems of a World Monetary Order. New York: Oxford University Press, 1974.

Miller, Norman. International Reserves, Exchange Rates and Developing Countries. Lexington, Mass.: Lexington Books, 1962.

Monroe, Wilbur. International Monetary Reconstruction. Lexington, Mass.: Lexington Books, 1974.

Munroe, Trevor. The Politics of Constitutional Decolonization: Jamaica, 1944-62. Jamaica Institute of Social and Economic Research, University of West Indies Mona, 1972.

Munroe, Trevor and Don Robotham. Struggles of the Jamaica People. Kingston, Jamaica: Workers' Liberation League, 1977.

Nappi, Carmine. Commodity Market Controls. Lexington, Mass.: D. C. Heath, 1979.

Nettleford, Rex, ed. Norman Manley and the New Jamaica: Selected Speeches and Writings. New York: Africa Publishing House, 1971.

Nkrumah, Kwame. Neo-Colonialism: The Last Stage of Imperialism. New York: International Publishers, 1965.

Parry, J. H. and P. M. Sherlock. A Short History of the West Indies. New York: Macmillan, 1971.

Payer, Cheryl. The Debt Trap: The IMF and the Third World. New York: Monthly Review Press, 1971.

Robertson, Charles L. "The Creation of UNCTAD" in Robert Cox, ed. International Organization and World Politics. London: MacMillan, 1969.

Rodney, Walter. How Europe Underdeveloped Africa. Washington: Howard University Press, 1974.

Root, Franklin. International Trade and Investment. Southwestern Publishing Co., 1978.

Rostow, Walter W. The Stages of Economic Growth: A Non-Communist Manifesto. Cambridge, Mass,: University of Cambridge Press, 1967.

Sherlock, P. M. West Indian Nations. New York: St. Martin's Press, 1973.

Solomon, Robert. The International Monetary System, 1945-81. New York: Harper & Row, 1982.

Spero Joan E. The Politics of International Economic Relations. New York: St. Martin's Press, 1980.

Todaro, Michael. Economic Development in the Third World. New York: Longman Inc., 1977.

Trifflin, Robert. Gold and the Dollar Crisis: The Future of Convertibility. New Haven Conn.: Yale Univeristy Press, 1960.

Whitaker, Jennifer. Africa and the United States: Vital Interest. New York: University Press, 1978.

Willett, Thomas D. Floating Exchange Rates and International Monetary Reform. Washington: American Enterprise Institute for Public Policy Research, 1977.

Williams, Eric. From Columbus to Castro: The History of the Caribbean, 1492-1967. New York: Harper & Row, 1970.

Williamson, John. The Lending Policies of the International Monetary Fund. Washington: Institute for International Economics, 1982.

Wolfe, Martin. The French Franc Between the Wars. New York: Columbia University Press, 1957.

Government Documents

Council on International Economic Policy. International Economic Report of the President. March 1976, Washington, D.C., pp. 161-162.

Edwards, Anthony. "The Potential for New Commodity Cartel: Copying OPEC or Improved International Agreements" QER No. 27. September 1975, London: The Economist Intelligence Unit.

Joubert, Michael, French Foreign Minister of the Sixth Special Session of the United Nations General Assembly, April 10, 1974. Services de Presse et d'Information.

Kissinger, Henry, Secretary of State, U.S. Department of State, The Bulletin. June 2, 1975, 72, p. 717.

Robinson, Charles, Undersecretary of State for Economic Affairs, U.S. Department of State, The Bulletin. May 26, 1975, 72, pp. 688-689.

U.S. Information Report on Jamaica, January 1982.

Wilson, Harold, Prime Minister, British Information Service, Policy and Reference Division 33/75 (1974), p. 1.

Periodicals

Abdalla, Ismail-Sabri, "The Inadequacy and Loss of Legitimacy of the International Monetary Fund" Development Dialogue, 1980:2, p. 25-28.

"Background Notes on the International Monetary Fund" Development Dialogue, 1980:2, p. 95.

Bank of Jamaica, "Balance of Payments of Jamaica" (1978-79).

Bergsten, Fred, "The Threat from the Third World" Foreign Policy, (Summer 1973), pp. 102-104.

Bolin William H. and Joge DeCanto, "LDC Debt: Beyond Crisis Management" Foreign Affairs, (Fall 1981), p. 1099.

Bourne, Compton, "Jamaica and the International Monetary Fund: Economics of the 1978 Stabilization Program" Economics and Sociology Occasional Paper #729, May 29, 1980.

Cordovez, Diego. "The Making of UNCTAD: Institutional and Legislative History" Journal of World Trade Law (May-June 1967), pp. 253-254.

Frank, A. G. "The Development of Underdevelopment" Monthly Review (September 1966).

Girvan, Norman. "Harsh Correctives that Made the Patient Worse" IRBD World Reveiw (March 1980).

________. "Swallowing the IMF Medicine in the Seventies" Development Dialogue, 1982:2, p. 55.

Girvan, Norman, Richard Bernal and Wesley Hughes. "The IMF and the Third World: The Case of Jamaica, 1974-80," Development Dialogue, 1980:2, p. 113.

IMF Annual Report, 1945, 1965, 1978, 1979, 1980.

IMF Press Release.

IMF Summary Report, 1979.

Introduction to Afro-American Studies, Vol. 1 (1978-79), p. 143.

Jamaica: Development Issues and Economic Prospects Report No. 3781-JM (January 29, 1982).

Lewis, W. A. "Economic Development with Unlimited Supply of Labor," The Manchester School (May 1952), pp. 141-142.

Munroe, Trevor, Struggle (June 1976).

Plan for Today (People's National Party Publication), 1940.

Plan for Security (People's National Party Publication), 1943.

Plan for Prosperity (People's National Party Publication), 1944.

Political Education Programme, Canvasser's Training, (1979-80) part 1, p. 5.

Rweyemamu, Justinian F. "Restructuring the International Monetary System," Development Dialogue, 1982:2, p. 75.

dos Santos, Theotonio. "The Structure of Dependence," American Economic Review (May 1970).

Seers, Dudley, "The Meaning of Development," International Review (December 1969), p. 5.

Thorp, Rosemary, "The Lessons of Peru's Painful Experience," IBRD World Review (March 1980).

Time, August 1979.

Totu, Ian. "Ways to a New World Economic Order," World Marxist Review (June 1980).

Ward, Barbara. "Another Chance for the North," Foreign Affairs (Winter 1980-81), p. 386.

Newspapers

Africa News, December 9, 1979, p. 4.

Africa News, February-March, 1980, p. 11.

Asian Wall Street Journal, February 28, 1980.

Financial Times, February 1975.

Heath, Edward, "The Way to Avoid a Caribbean Crisis," *The Times* (March 12, 1980).

The Jamaica Daily Gleaner (several issues, 1976-81).

The Jamaican Daily News (several issues, 1976-80).

Manley, Michael, "Jamaica Fights IMF to Cut Jobless," *The Guardian*, (March 15, 1980).

Miami Herald, "International Monetary Bail Out Jamaica," September 20, 1979.

The Milwaukee Journal (March 26, 1980).

The New York Times (April 8, 1980).

The Washington Post (May 15, 1983).

APPENDIX A

Articles of Agreement of the International Monetary Fund

The Governments on whose behalf the present Agreement is signed agree as follows:

Introductory Article

(i) The International Monetary Fund is established and shall operate in accordance with the provisions of this Agreement as originally adopted and subsequently amended.

(ii) To enable the Fund to conduct its operations and transactions, the Fund shall maintain a General Department and a Special Drawing Rights Department. Membership in the Fund shall give the right to participation in the Special Drawing Rights Department.

(iii) Operations and transactions authorized by this Agreement shall be conducted through the General Department, consisting in accordance with the provisions of this Agreement of the General Resources Account, the Special Disbursement Account, and the Investment Account; except that operations and transactions involving special drawing rights shall be conducted through the Special Drawing Rights Department.

Article I

Purposes

The purposes of the International Monetary Fund are:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Article II

Membership

Section 1. *Original members*

The original members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before December 31, 1945.

Section 2. *Other members*

Membership shall be open to other countries at such times and in accordance with such terms as may be prescribed by the Board of Governors. These terms, including the terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members.

Article III

Quotas and Subscriptions

Section 1. *Quotas and payment of subscriptions*

Each member shall be assigned a quota expressed in special drawing rights. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before December 31, 1945 shall be those set forth in Schedule A. The quotas of other members shall be determined by the Board of Governors. The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository.

Section 2. *Adjustment of quotas*

(*a*) The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned.

(*b*) The Fund may at any time propose an increase in the quotas of those members of the Fund that were members on August 31, 1975 in proportion to their quotas on that date in a cumulative amount not in excess of amounts transferred under Article V, Section 12(*f*) (i) and (*j*) from the Special Disbursement Account to the General Resources Account.

(*c*) An eighty-five percent majority of the total voting power shall be required for any change in quotas.

(*d*) The quota of a member shall not be changed until the member has consented and until payment has been made unless payment is deemed to have been made in accordance with Section 3(*b*) of this Article.

Section 3. *Payments when quotas are changed*

(*a*) Each member which consents to an increase in its quota under Section 2(*a*) of this Article shall, within a period determined by the Fund, pay to the Fund twenty-five percent of the increase in special drawing rights, but the Board of Governors may prescribe that this payment may be made, on the same basis for all members, in whole or in part in the currencies of other members specified,

with their concurrence, by the Fund, or in the member's own currency. A non-participant shall pay in the currencies of other members specified by the Fund, with their concurrence, a proportion of the increase corresponding to the proportion to be paid in special drawing rights by participants. The balance of the increase shall be paid by the member in its own currency. The Fund's holdings of a member's currency shall not be increased above the level at which they would be subject to charges under Article V, Section 8 (*b*) (ii), as a result of payments by other members under this provision.

(*b*) Each member which consents to an increase in its quota under Section 2(*b*) of this Article shall be deemed to have paid to the Fund an amount of subscription equal to such increase.

(*c*) If a member consents to a reduction in its quota, the Fund shall, within sixty days, pay to the member an amount equal to the reduction. The payment shall be made in the member's currency and in such amount of special drawing rights or the currencies of other members specified, with their concurrence, by the Fund as is necessary to prevent the reduction of the Fund's holdings of the currency below the new quota, provided that in exceptional circumstances the Fund may reduce its holdings of the currency below the new quota by payment to the member in its own currency.

(*d*) A seventy percent majority of the total voting power shall be required for any decision under (*a*) above, except for the determination of a period and the specification of currencies under that provision.

Section 4. *Substitution of securities for currency*

The Fund shall accept from any member, in place of any part of the member's currency in the General Resources

Executive Directors and Voting Power on April 30, 1980

			General Department		Special Drawing Rights Department	
Director *Alternate*	Casting Votes of	Votes by Country	Total votes [1]	Per cent of Fund total [2]	Total votes [1]	Per cent of Fund total [3]
APPOINTED						
Sam Y. Cross *Donald E. Syvrud*	United States	84,300	84,300	19.83	84,300	19.83
John Anson *Lionel D.D. Price*	United Kingdom	29,500	29,500	6.94	29,500	6.94
Gerhard Laske *Guenter Winkelmann*	Germany, Fed. Rep. of	21,810	21,810	5.13	21,810	5.13
Paul Mentré de Loye *Thierry Aulagnon*	France	19,440	19,440	4.57	19,440	4.57
Teruo Hirao *Akira Nagashima*	Japan	16,840	16,840	3.96	16,840	3.96
Mahsoun B. Jalal *Yusuf A. Nimatallah*	Saudi Arabia	6,250	6,250	1.47	6,250	1.47
ELECTED						
Joaquín Muns (Spain) *Ariel Buira (Mexico)*	Costa Rica	660				
	El Salvador	680				
	Guatemala	760				
	Honduras	590				
	Mexico	5,600				
	Nicaragua	590				
	Spain	5,820				
	Venezuela	6,850	21,550	5.07	21,550	5.07
H.O. Ruding (Netherlands) *Tom de Vries (Netherlands)*	Cyprus	590				
	Israel	2,300				
	Netherlands	9,730				
	Romania	2,700				
	Yugoslavia	3,020	18,340	4.31	18,340	4.31
Bernard J. Drabble (Canada) *Michael Casey (Ireland)*	Bahamas	580				
	Barbados	420				
	Canada	13,820				
	Grenada	280				
	Ireland	1,800				
	Jamaica	990	17,890	4.21	17,890	4.21
Lamberto Dini (Italy) *Costa P. Caranicas (Greece)*	Greece	2,100				
	Italy	12,650				
	Malta	450				
	Portugal	1,970	17,170	4.04	17,170	4.04

Director *Alternate*	Casting Votes of	Votes by Country	General Department Total votes[1]	General Department Per cent of Fund total[2]	Special Drawing Rights Department Total votes[1]	Special Drawing Rights Department Per cent of Fund total[2]
ELECTED (continued)						
Robert J. Whitelaw (Australia)	Australia	8,150				
Richard J. Lang (New Zealand)	Korea	1,850				
	New Zealand	2,570				
	Papua New Guinea	550				
	Philippines	2,350				
	Seychelles	263				
	Solomon Islands	271				
	Western Samoa	280	16,284	3.83	16,284	3.83
Mohamed Finaish (Libya)	Bahrain	450				
Kadhim A. Al-Eyd (Iraq)	Iraq	1,660				
	Jordan	550				
	Kuwait	2,600				
	Lebanon	370				
	Libya	2,100				
	Maldives	259				
	Pakistan	3,100				
	Qatar	650				
	Somalia	480				
	Syrian Arab Republic	880				
	United Arab Emirates	1,450				
	Yemen Arab Republic	380				
	Yemen, People's Dem. Rep. of	660	15,589	3.67	15,589	3.67
Jacques de Groote (Belgium)	Austria	3,550				
Heinrich G. Schneider (Austria)	Belgium	9,150				
	Luxembourg	560				
	Turkey	2,250	15,510	3.65	15,510	3.65
Jahangir Amuzegar (Iran)	Afghanistan	700				
Mohammed Yeganeh (Iran)	Algeria	3,100				
	Ghana	1,310				
	Iran	6,850				
	Morocco	1,750				
	Oman	450				
	Tunisia	880	15,040	3.54	15,040	3.54
Alexandre Kafka (Brazil)	Brazil	6,900				
José Gabriel-Peña (Dominican Republic)	Colombia	2,180				
	Dominican Republic	800				
	Guyana	500				
	Haiti	480				
	Panama	700				
	Peru	1,890				
	Suriname	500				
	Trinidad and Tobago	1,070	15,020	3.53	15,020	3.53
S.D. Deshmukh (India)	Bangladesh	1,770				
Edmund Eramudugolla (Sri Lanka)	India	11,700				
	Sri Lanka	1,440	14,910	3.51	14,910	3.51
Matti Vanhala (Finland)	Denmark	3,350				
Gisli Blöndal (Iceland)	Finland	2,870				
	Iceland	540				
	Norway	3,200				
	Sweden	4,750	14,710	3.46	14,710	3.46
Byanti Kharmawan (Indonesia)	Burma	980				
Savenaca Siwatibau (Fiji)	Fiji	430				
	Indonesia	5,050				
	Lao People's Dem. Rep.	410				
	Malaysia	2,780				
	Nepal	440				
	Singapore	740				
	Thailand	2,060				
	Viet Nam	1,150	14,040	3.30	14,040	3.30

Director *Alternate*	Casting Votes of	Votes by Country	General Department: Total votes[1]	General Department: Per cent of Fund total[2]	Special Drawing Rights Department: Total votes[1]	Special Drawing Rights Department: Per cent of Fund total[2]
ELECTED (concluded)						
Festus G. Mogae (Botswana)	Botswana	340				
Semyano Kiingi (Uganda)	Burundi	480				
	Ethiopia	610				
	Gambia, The	340				
	Guinea	550				
	Kenya	940				
	Lesotho	320				
	Liberia	620				
	Malawi	440				
	Nigeria	3,850				
	Sierra Leone	560				
	Sudan	1,130				
	Swaziland	370				
	Tanzania	800				
	Uganda	750				
	Zambia	1,660	13,760	3.24	13,760	3.24
Samuel Nana-Sinkam (Cameroon)	Benin	410				
Abderrahmane Alfidja (Niger)	Cameroon	700				
	Central African Republic	410				
	Chad	410				
	Comoros	273				
	Congo	420				
	Equatorial Guinea	350				
	Gabon	550				
	Guinea-Bissau	289				
	Ivory Coast	1,010				
	Madagascar	590				
	Mali	520				
	Mauritania	420				
	Mauritius	520				
	Niger	410				
	Rwanda	480				
	São Tomé and Principe	270				
	Senegal	670				
	Togo	440				
	Upper Volta	410				
	Zaïre	1,770	11,322	2.66	11,322	2.66
Francisco Garcés (Chile)	Argentina	5,600				
Julio C. Gutiérrez (Paraguay)	Bolivia	700				
	Chile	2,420				
	Ecuador	950				
	Paraguay	480				
	Uruguay	1,090	11,240	2.64	11,240	2.64
			410,515[3]	96.55[2]	410,515[3]	96.55[2]

[1] Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department. In voting on matters relating exclusively to the Special Drawing Rights Department, only the number of votes allotted to members which are participants may be cast.

[2] The sum of the individual percentages may differ from the percentages of the totals because of rounding.

[3] This total does not include the votes of China, Egypt, Democratic Kampuchea, and South Africa, which did not participate in the 1978 Regular Election of Executive Directors, and of Cape Verde, Djibouti, Dominica, St. Lucia, and St. Vincent, which became members after that election. The combined votes of those members total 14,650—3.45 per cent of the total voting power.

APPENDIX C

Content of Second Amendment

The topics on which modifications of the Articles are included in the Second Amendment do not correspond to the list of possible amendments in Part II of the *Outline*. For example, there are no provisions authorizing the establishment of a substitution account through which members might exchange gold or reserve currencies for SDRs in order to give members a preferred asset, enhance the role of the SDR and contribute to the decline of gold, and give the Fund better control over international liquidity. Nor is there provision for a link between the allocation of SDRs and development assistance, or for an obligation of members to consult the Fund on the introduction or intensification for balance of payments reasons of restrictions on trade or other current account measures in order to enable the Fund to determine that these actions are indeed justified by the state of the balance of payments.

Topics such as these were included in the list of possible amendments not because there was widespread sentiment in favor of them in the Committee of Twenty, but, on the contrary, because there were opposing and strongly held views about them. The inclusion of them in the list was a compromise that bought time, but, as it turned out, not agreement. Draft amendments on these topics were prepared and discussed, some eagerly and others fitfully, but the proposals were abandoned when it became apparent that agreement was still impossible even after consideration of them at the ministerial level in the Interim Committee.

---

[3] *Proposed Second Amendment to the Articles of Agreement of the International Monetary Fund: A Report by the Executive Directors to the Board of Governors* (Washington, 1976).

the Second Amendment. Whether these changes will succeed in helping to depose gold from its traditional sovereign status cannot be foreseen. Much will depend on the way in which members behave in relation to gold.

The main holders of gold entered into an agreement among themselves that was intended to avoid frustration of the objective of the Second Amendment in relation to gold. Although the agreement was considered by some members a necessary condition for concurrence in the new provisions on gold, the agreement bound the parties for an initial period of no more than two years. The Fund's powers to ensure that members avoid actions incompatible with the objective of the Second Amendment are limited or at best unclear. The language in which these powers are expressed was affected by the determination of some members to go as far as possible in separating the Fund from gold in the hope that eventually there would be a complete divorce. Clear authority over the behavior of members in connection with gold was considered undesirable by these members because it would preserve a relationship between the Fund and gold. So strong was this conviction that it did not seem paradoxical to oppose jurisdiction even if it were expressly granted for the purpose of promoting a reduction in the role of gold. Other members could have accepted this jurisdiction provided that it was coupled with similar authority over reserve currencies. Resistance to this proposal is another reason why the provision was drafted in terms of the surveillance of international liquidity instead of jurisdiction to control the activities of members in relation to gold.

A concomitant objective of the Second Amendment, stated twice for emphasis, is to make the SDR the principal reserve asset of the international monetary system. For this purpose, numerous improvements or potential improvements have been made in the SDR that could give it more of the characteristics of legal tender among monetary authorities. One of these improvements is the right of participants in the Special Drawing Rights Department to discharge many obligations to the Fund in SDRs. Another is the right of participants to transfer SDRs between themselves by agreement, coupled with freedom for the transferor to enter into these transactions even if it has no economic need to use reserves. A third improvement that may have a similar effect is the power of the Fund to permit participants to use SDRs in operations other than those specifically authorized by the Articles.

If one asks what are the most important aspects of the Second Amendment, few observers would fail to mention the provisions on exchange arrangements. In legalizing freedom for members to choose their exchange arrangements, including floating, the Second Amendment represents a complete departure from the central feature of the original Articles, the par value system. An objective of the new provisions, however, is "a stable system of exchange rates." The emphasis in these provisions shifts from stable exchange rates to the orderly economic and financial conditions that will promote a stable system of exchange rates. The thought that has inspired the provisions is the well-known theory that flexible exchange rates, though free to vary, are a highly stable system unless instability in them is produced by underlying economic tensions and uncertainties.

In order to achieve a stable system, members are subject to certain obligations in relation to their external and domestic policies, and the Fund is required to maintain surveillance of the compliance of members with their obligations.

> If the convoluted economic language of these provisions were translated into ethical principles, it might be said that members will be required to strive for order, stability, and fairness in conducting those domestic and external policies that can affect exchange relationships. In one provision the word "orderly" appears four times and "stability" or "stable" three times, but these numbers should not be regarded as measurements of importance because there is only one reference involving fairness, and even that one is to unfairness.[4]

If the exchange arrangements of the future do result in considerable stability, the new provisions on gold might then seem to be a more dramatic feature of the Second Amendment. The objective with respect to gold is a gradual reduction in its role in the international monetary system. This aim is pursued by immediate and radical changes in the role of gold in the Fund itself. Abolition of an official price for gold, prohibition of any function as a denominator in exchange arrangements, elimination of the obligations of the Fund and members to transfer or receive gold under the Articles, and disposition of part of the Fund's holdings of gold are among the radical innovations of

[4] Joseph Gold, "A Report on Certain Recent Legal Developments in the International Monetary Fund," *Vanderbilt Journal of Transnational Law* (Nashville, Tennessee), Vol. 9 (1976), p. 231.

APPENDIX D

INTERNATIONAL MONETARY CHRONOLOGY

1944

July 1–22	International Monetary and Financial Conference of the United and Associated Nations at Bretton Woods, New Hampshire, agrees to establish International Monetary Fund (IMF) and World Bank (IBRD).

1945

July 31	Bretton Woods Agreements Act signed by President Truman.
September 1	Lend-lease aid terminated by U.S.
September 11	Export-Import Bank authorizes loan of $550 million to France

1946

March 8–18	Inaugural Meeting of Boards of Governors of IMF and IBRD. Savannah, Georgia.
May 6	Executive Directors of IMF take up their functions.
June 19	Export-Import Bank authorizes an additional loan of $650 million to France.
July 15	President Truman signs bill approving Anglo-American Loan Agreement, providing loan of $3.75 billion to U.K.

1947

March 12	President Truman asks Congress for $400 million special assistance to Greece and Turkey in addition to $350 million requested earlier for other countries.

May 8	IMF extends its first loan: $25 million to France.
June 5	Secretary of State Marshall, in speech at Harvard, proposes European Recovery Program (ERP).
July 15	U.K. restores convertibility of pound.
August 20	U.K. suspends convertibility of pound.
November 17	President Truman asks a special session of Congress to provide $597 million "interim aid" for Austria, China, France, and Italy until the European Recovery Program can get under way.

1948

January 25	France abandons its par value and adopts a multiple exchange rate.
April 5	IMF decides that countries receiving U.S. assistance under ERP should not normally borrow dollars from Fund.
June 28	President signs bill appropriating initial $4 billion for European Recovery Program and $2 billion for other foreign assistance.

1949

September 18–29	Exchange rates of European countries devalued in amounts ranging from 30.5 percent for pound sterling to 12.3 percent for Belgian franc. Many non-European countries also devalue.

1950

July 1	European Payments Union (EPU) established by recipients of ERP assistance.
September 30	Canada adopts floating exchange rate.

1952

August 13	Japan joins IMF.

1956

October 17	France is extended IMF standby credit of $263 million.
December 22	U.K. borrows $561 million from IMF and is extended a standby credit of $739 million.

1957

February–June	France draws $263 million from Fund.
August 12	France devalues the franc by 16.7 percent.

Chronology

1958

January 1	European Economic Community (EEC) comes into existence.
January	France is extended IMF standby credit of $131 million.
March–June	France draws $131 million from Fund.
December 27	Ten European countries restore the convertibility of their currencies for nonresidents. Five other European countries soon follow. EPU eliminated.
December 29	France devalues the franc by 14.8 percent.

1959

September 9	IMF quota increase agreed.

1960

October	Price in London gold market rises, touching $40 per ounce.
October 31	Presidential candidate Kennedy denies that he would devalue the dollar.
November	U.S. and seven other countries begin to sell gold in London market.
November 16	President Eisenhower issues directive instituting measures to reduce U.S. balance-of-payments deficit.

1961

March 6–7	Germany and the Netherlands revalue their currencies upward by 5 percent.
March	U.S. Treasury initiates operations in foreign exchange markets.
September 30	Organization for Economic Cooperation and Development (OECD) formally comes into existence.

1962

January 5	Proposal for IMF to borrow from ten industrial countries—General Arrangements to Borrow (GAB)—approved.
February 13	Federal Reserve adopts procedures for foreign currency operations.
May 1	Canada reestablishes a par value for its currency.

1963

July 18	President Kennedy proposes interest equalization tax on American purchases of foreign securities.
October	Deputies of Group of Ten begin a nine-month study of "functioning of the international monetary system and of its probable future needs for liquidity."

1964

June 30	International study group of 32 economists completes report, *International Monetary Arrangements: The Problem of Choice.*
July	Group of Ten Study Group on Creation of Reserve Assets organized.
August 10	Group of Ten issues report on functioning of international monetary system.
October 17	Newly elected Labour Government decides against devaluation of sterling.
October 26	U.K. imposes 15 percent surcharge on imports of manufactures.
November 20	First use of GAB as U.K. borrowing of $1 billion from IMF is announced.
November 23	Bank of England raises Bank rate from 5 to 7 percent.
November 25	Credits of $3 billion extended to U.K. by U.S. and ten other countries, plus BIS.

1965

February 5	President de Gaulle calls for return to gold standard.
February 10	President Johnson announces extension of restraints on U.S. capital outflows to bank loans and corporate investment overseas.
April 1	IMF quota increase agreed.
May 12	U.K. draws additional $1.4 billion from IMF.
June	Report of Study Group on Reserve Assets circulated to governments.
June 15	French Finance Minister Giscard d'Estaing rejects a return to gold standard.
July 10	Secretary of the Treasury Fowler proposes an international monetary conference to consider "improvements in international monetary arrangements."
August 10	Report of Study Group on Reserve Assets published.
September 2	U.K. Government announces new wage-price policy.
September 10	Federal Reserve and other central banks enter exchange markets to support sterling.
September 28	Group of Ten instructs deputies to undertake "contingency planning" to meet future reserve needs.
December 6	Federal Reserve raises discount rate from 4 to 4.5 percent.

1966

January	Valéry Giscard d'Estaing replaced by Michel Debré as French Minister of Economy and Finance.
February 25	President de Gaulle meets with his senior officials and adopts stand against "contingency planning" for a new reserve asset.

July 20	British Government announces drastic stabilization program.
September 13	Increase in credit lines to Bank of England from Federal Reserve and other central banks.

1967

January 8–9	French Finance Minister Debré in an interview in *Le Monde* raises possibility of a future increase in official price of gold.
January 10	President Johnson calls for 6 percent temporary income tax surcharge.
January	Bundesbank begins to ease restrictive monetary policy.
March	U.K. completes repayment of debts to Federal Reserve and other central banks.
April 17–18	Finance Ministers of EEC, meeting in Munich, agree on joint position on SDR.
May 2	Germany's agreement not to buy gold from the U.S. announced.
May 17	President de Gaulle rejects proposal that U.K. join EEC.
June 5	Six day Arab-Israeli war begins.
July	U.K. draws on central bank swap lines again.
July 17–18, August 26	Ministers and Governors of Group of Ten meet in London to iron out differences on SDR.
August	President Johnson asks for 10 percent income tax surcharge.
September	Outline of SDR Facility approved at IMF annual meeting in Rio de Janeiro.
November 11–12	Magnitude of a possible British devaluation discussed at Basle meeting of central bank governors.
November 14	British government announces October trade deficit, the largest on record.
November 16	British Cabinet formally decides on devaluation.
November 17	Bank of England sells more than $1 billion in foreign exchange market to support sterling exchange rate.
November 18	Britain announces 14.3 percent devaluation of pound, from $2.80 to $2.40. President Johnson issues statement reaffirming intention of U.S. to maintain official price of gold at $35 per ounce.
November 26	Governors of central banks of active members of gold pool meet in Frankfurt and agree both to continue pool sales and to support existing pattern of exchange rates.
November 30	IMF provides standby credit of $1.4 billion to U.K.

1968

January 1	President Johnson announces stringent balance-of-payments program involving mandatory capital controls.
February 28	Senator Javits issues statement calling for suspension of convertibility of dollar and abandonment of gold pool.
March 7	Canada exempted from U.S. capital controls.
March 9–10	Central bankers meet in Basle and are persuaded by Chairman Martin to continue gold pool.
March 14	FOMC agrees to increase Federal Reserve swap network by $2.8 billion.
March 15	London gold market closed.
March 16–17	Meeting of active gold pool members in Washington establishes two-tier gold arrangement and abandons gold pool.
March 19	U.K. introduces stringent budget.
March 29–30	At Stockholm, Group of Ten, with France reserving its position, resolves final issues on establishment of SDR.
April 1	London gold market reopened.
May	Student and worker uprisings in France.
June 5	France draws $100 million on Federal Reserve swap.
June 18	France sells $400 million of gold to U.S. and three European countries.
June 28	Income tax surcharge and expenditure ceiling is signed into law by President Johnson.
August	Speculation in exchange markets on a revaluation of German mark.
September 9	Basle arrangements to guarantee sterling balances announced.
November 1–19	Speculation on exchange rate changes in Europe; Bundesbank takes in $2.8 billion.
November 13	President de Gaulle says devaluation of franc would be "worst form of absurdity."
November 19	France announces cut in budget: Germany announces increased taxes on exports and reduced taxes on imports.
November 20–22	Ministers and Governors of Group of Ten meet in Bonn to deal with foreign exchange crisis.
November 24	In nationwide address, President de Gaulle announces refusal to devalue franc. President Johnson supports him.

1969

April 4	U.S. eases controls on capital outflows.
April 28–June	After losing referendum, President de Gaulle resigns and is succeeded in June by Georges Pompidou. Giscard d'Estaing reenters cabinet as Finance Minister.

Chronology

April 29	German Finance Minister Strauss suggests publicly that Germany might revalue mark as part of a multilateral realignment.
April 30–May 9	Bundesbank takes in $4 billion in order to hold exchange rate.
May 9	German cabinet rejects revaluation "for eternity."
May 12	Germany introduces new controls on inflows of funds.
July 28	SDR amendment enters into force.
August 8	France devalues the franc by 11.1 percent.
September 29	Germany lets the mark float.
October 24	Germany establishes new par value, up 9.3 percent.
October–December	Germany's reserves fall by more than $5 billion, including sale of $500 million of gold to U.S.

1970

January 1	First allocation of SDRs, in the amount of $3.4 billion.
February 9	IMF quota increase agreed.
June 1	Canadian dollar floats.
June 9	EEC sets 1980 as target date for monetary and economic union.
September 13	IMF publishes report on *The Role of Exchange Rates in the Adjustment of International Payments.*
January–December	U.S. has balance-of-payments deficit of $9.8 billion.

1971

January 1	Second allocation of SDRs—$3 billion.
April 4	U.S. Treasury official tells press that the U.S. expects no change in exchange rates.
April	Germany acquires $3 billion of foreign exchange, in holding exchange rate.
April 26	German Economics Minister Schiller proposes joint float of European currencies to Hamburg meeting of EEC Finance Ministers. French Minister Giscard d'Estaing proposes devaluation of dollar.
April 28	Bundesbank suspends purchases of dollars in forward market.
May 3	German economic research institutes recommend that the mark float.
May 4	Bundesbank takes in $1 billion. Secretary Connally issues statement saying "no change in the structure of exchange parities is necessary or anticipated."
May 5	Bundesbank takes in $1 billion in first hour and then suspends official operations in foreign exchange market.
May 8–9	EEC Finance Ministers meet in Brussels and again reject Schiller's proposal for joint float.

May 9	Austria revalues by 5 percent and Switzerland by 7.1 percent.
May 10	Germany and the Netherlands let their currencies float.
May 28	Secretary Connally declares, in a speech at Munich: "We are not going to devalue. We are not going to change the price of gold."
June 4	Japan announces "eight point program" to reduce its balance-of-payments surplus.
August 2	President Nixon meets with Connally and Shultz and quietly decides that a drastic change in U.S. policies, domestic and international, is needed.
August 7	Subcommittee of Joint Economic Committee recommends revaluation of foreign currencies or float of dollar.
August 13	President Nixon and top economic officials go to Camp David.
August 15	President Nixon announces price-wage freeze, 10 percent import surcharge, and suspension of convertibility of dollar into gold and other reserve assets.
August 16–20	Bank of Japan takes in $2 billion in attempt to hold exchange rate.
August 19	France rejects German proposal for joint float of European currencies and establishes two-tier foreign exchange market.
August 23–27	Bank of Japan takes in another $2 billion and then decides to let yen float.
August 23	Schweitzer, on "Today" television program, suggests devaluation of dollar in terms of gold as a U.S. "contribution" to restoration of monetary stability.
September 3–4	Deputies of Group of Ten meet in Paris and U.S. unveils its objective to achieve a swing of $13 billion in its balance of payments.
November 30–December 1	Group of Ten meets in Rome and discusses "hypothetical" devaluation of dollar but fails to agree on a realignment of exchange rates.
December 6	Canadian Prime Minister Trudeau announces that Canada's dollar would float even after a realignment of other currencies.
December 13–14	Presidents Pompidou and Nixon meet in the Azores and announce agreement on a devaluation of the dollar and a revaluation "of some other currencies."
December 17–18	Group of Ten meets at Smithsonian Institution in Washington and agrees on a realignment of currencies, including devaluation of dollar.

February 7–12	Under Secretary Volcker visits major capitals on 31,000-mile trip.
February 12	Foreign exchange markets "closed" in Europe and Japan. U.S. announces 10 percent devaluation of dollar.
February 12	Japan adopts floating exchange rate, followed by Italy and Switzerland.
February 14	Exchange markets reopen.
March 1	European central banks purchase $3.6 billion and "close" foreign exchange markets.
March 4, 8	EEC Finance Ministers meet in Brussels to consider joint float and requests for U.S. actions.
March 9	Finance Ministers of 14 countries meet in Paris.
March 11	EEC Ministers announce joint float of "six" currencies (while Britain, Italy, and Ireland float independently). Germany revalues mark by 3 percent.
March 13	Austria revalues its currency by 2.25 percent.
March 16	Finance Ministers of 14 countries meet again. Sweden and Norway associate their currencies with EEC snake.
July 10	Federal Reserve resumes intervention in foreign exchange markets and expands swap network.
September 24	Committee of Twenty releases First Outline of Reform and agrees to July 31, 1974, deadline for completion of its work.
October	Oil embargo imposed and oil price raised during Arab-Israeli War.
November 12	Central bank governors, meeting in Basle, terminate two-tier gold agreement.
December 23	Oil price raised again, quadrupling it from level of early October.

1974

January 17–18	Committee of Twenty, meeting in Rome, decides to adopt evolutionary approach to reform.
January 19	French franc drops out of EEC snake.
January 29	U.S. terminates controls on outflows of capital.
January 30	Germany relaxes restrictions on inflows of capital.
April 22–23	EEC Finance Ministers, meeting at Zeist in the Netherlands, adopt a position on the future role of gold.
June 14	Committee of Twenty issues Outline of Reform, including "immediate steps," and concludes its work.
June 25	Herstatt Bank of Cologne (Germany) fails.
October 3	New Interim Committee of IMF holds its first meeting.

Chronology

1975

February 1	Central bank governors of Germany, Switzerland, and U.S. meet in London and agree on more concerted intervention to maintain orderly markets.
February	Federal Reserve sells $600 million of foreign currencies, drawn under swap network.
July 10	French franc rejoins EEC snake.
August 31	Interim Committee and Group of Ten, meeting in Washington, agree on treatment of gold.
November 15–17	Six heads of government, meeting at Rambouillet, acknowledge "rapprochement" between France and U.S. on exchange rate system.

1976

January 7–8	Interim Committee, meeting in Kingston, Jamaica, completes interim reform, with agreement on IMF quota increases, exchange rate system, treatment of gold, Trust Fund.
March 15	France drops out of EEC snake.
June 2	IMF holds the first of its gold auctions, the proceeds of which will finance the Trust Fund.
September 29	British Chancellor of the Exchequer Denis Healey announces request to IMF for standby arrangement of $3.9 billion.
October 18	German mark revalued against other snake currencies by 2 to 6 percent.
November 5	A group of private economists from Western Europe, Japan, and North America, meeting at the Brookings Institution, recommended that Germany, Japan, and the United States adopt more stimulative domestic policies, in view of recent lull in economic expansion.
December 17	OPEC announces two-tier increase in oil prices: 10 percent by 11 countries and 5 percent by Saudi Arabia and United Arab Emirates.

1977

January–February	IMF carries out first in a series of four annual restitutions of gold to member countries at SDR 35 per ounce.
January 10	Following IMF approval of a drawing of SDR 3.4 billion by the United Kingdom, it was announced at the BIS that the central banks of seven countries would make available $3 billion to Britain to help preserve international monetary stability and to facili-

Chronology

April–May	Dollar strengthens in foreign exchange markets.
June 1	Bundesbank terminates 100 percent marginal reserve requirement on bank liabilities to non-residents.
June 17	Jacques de Larosiere succeeds H. Johannes Witteveen as Managing Director of IMF.
July 6–7	European Council (heads of government of European Communities) decides to establish a European Monetary System as a "zone of monetary stability."
July–August	Dollar depreciates 7 percent.
July 16–17	At economic summit meeting in Bonn, Chancellor Schmidt pledges to achieve higher rate of growth of German economy. President Carter promises to strengthen anti-inflation efforts and to phase out regulation of oil prices in the United States.
August 17	President Carter, in a press conference, expresses concern over decline of dollar. The next day the Federal Reserve announced an increase in the discount rate by 1/2 percentage point and on August 28 it announced elimination of the 4 percent reserve requirement on foreign borrowings of American banks. On August 22 the Treasury announced that monthly gold auctions would be raised from 300,000 ounces to 750,000 ounces.
August–October	Federal Reserve and Treasury sell equivalent of $2.5 billion to support dollar.
September 13	IMF quotas increased to SDR 39 billion.
September 22	Interim Committee, meeting in Washington, recommends an increase in IMF quotas of at least 50 percent and allocations of SDRs of SDR 4 to 6 billion per year for three years.
October 16	German mark revalued in snake by 2 percent against Dutch guilder and Belgian franc and by 4 percent against Danish and Norwegian krones.
October 24	President Carter announces a three-part anti-inflation program.
October 25–30	Dollar depreciates 2.7 percent.
November 1	President Carter, U.S. Treasury, and Federal Reserve announce measures to stabilize and strengthen the dollar, including mobilization of $30 billion of foreign exchange, increased sales of gold, and a 1 percent advance in the discount rate.
November 1	Saudi Arabia assumes a twenty-first seat on the IMF Executive Board, having become entitled to appoint a Director by virtue of being the second largest creditor of the Fund.
November 7	IMF borrows SDR 777 million from Germany and Japan, under GAB, to help finance a drawing by the United States in the amount of SDR 2.2 billion.

November–December	Unrest in Iran leads to drop in its oil production and exports.
December 17	OPEC raises oil prices 14.5 percent.
December 29	France delays inauguration of European Monetary System (EMS).

1979

January 1	IMF allocates $4 billion of SDRs and raises their rate of interest from 4 to 6 percent.
January 1	Reconstitution requirement on SDR reduced from 30 to 15 percent.
January 17	Bank of Japan reduces from 100 to 50 percent marginal reserve requirement on deposits of non-residents.
January 19	Bundesbank raises bank rate and announces an increase in reserve requirements.
January 24	Switzerland terminates ban on non-resident purchases of Swiss securities.
February 23	IMF supplementary financing facility enters into force.
March 7	Interim Committee recommends active consideration of a voluntary substitution account in the Fund.
March 13	EMS begins to operate.
March 27	Official OPEC price raised 9 percent to $14.55 per barrel, and members are left free to add premia to this price.
April 18	U.S. Treasury announces that its monthly gold auctions will be reduced by half to 750,000 ounces.
June 28	OPEC announces 24 percent increase, to $18 per barrel, in official price, with a permitted maximum of $23.50.
July 19	Prime Minister Thatcher's government liberalizes exchange controls.
May–July	Federal Reserve and Treasury sell equivalent of $5.4 billion to support dollar.
September 23	EMS parities adjusted for first time as mark is revalued 5 percent against Danish krone and 2 percent against French franc, Belgian franc, Dutch guilder, Italian lira, and Irish pound.
October 6	Federal Reserve announces 1 percent increase in discount rate to 12 percent, an 8 percent marginal reserve requirement on managed liabilities, and a change in operating procedures to give greater emphasis to supply of bank reserves and less emphasis to federal funds rate.
August 1–October 6	Federal Reserve and Treasury sell equivalent of $4.6 billion to support dollar.

Chronology

November 14	U.S. blocks official Iranian assets in the United States, following a statement from the Iranian government of plans to withdraw deposits from U.S. banks.
November 30	Danish krone devalued by 5 percent against other EMS currencies.
December 20	OPEC Ministers fail to agree on a new price and each country may set its own price. On January 1, prices ranged from $24 to $36 per barrel.

1980

January 1	IMF allocates $4 billion of SDRs.
January 21	London gold price reaches $850 per ounce and then falls $200 in next two days.
February 20	Switzerland relaxes controls on capital inflows.
March 21	Germany, in current account deficit, announces that it will sell government notes to certain OPEC countries.
April 2	Prime rate charged by U.S. banks reaches 20 percent.
April 17	IMF decides that the People's Republic of China represents China in the Fund.
April 25	Interim Committee, meeting at Hamburg, fails to agree on features of a substitution account and expresses "its intention to continue its work on this subject."
April 25	Saudi Arabia agrees to purchase Japanese government bonds in amounts up to $2.4 billion per year.
May 7	IMF conducts its final gold auction, completing four-year program under which 25 million ounces were auctioned for the benefit of the Trust Fund.
June 11	OPEC sets a price range of $32 to $37 per barrel.
July 25	Prime rate charged by U.S. banks reduced from 11.5 to 11 percent, the lowest rate of the year.
August 1	Bundesbank cuts reserve requirement by 10 percent.
September 11	China's IMF quota is increased to SDR 1.2 billion, making it the eighth largest in the Fund, and giving it the right to have an elected Executive Director. The result is to enlarge the Executive Board to twenty-two.
September 11	IMF decides, effective January 1, to simplify the valuation of SDR by basing it on five currencies (U.S. dollar, German mark, Franch franc, Japanese yen and British pound).
August–October	U.S. Treasury and Federal Reserve purchase $3.4 billion of foreign currencies as dollar appreciates.
November 29	IMF quotas increased to SDR 60 billion.

December 1	Japan liberalizes foreign exchange regulations.
December 16	OPEC sets a price range of $32 to $41 per barrel.
December 19	Prime rate charged by U.S. banks reaches 21.5 percent.

1981

January 1	IMF allocates SDR 4.1 billion of SDRs.
January 1	Greece becomes the tenth member of EEC.
November–January	U.S. Treasury and Federal Reserve purchase $4.5 billion of foreign currencies.
February 19	Bundesbank suspends Lombard lending facility for German banks at fixed interest rate. Market interest rates rise sharply.
March 13	IMF decides to enlarge access of members to Fund resources relative to size of quotas.
March 23	Italian lira devaluated 6 percent in EMS.
March 27	IMF announces that Saudi Arabia will lend SDR 8 billion to Fund over two years. Saudi quota is increased from SDR 1 billion to SDR 2.1 billion.
April 2	U.S. prime rate lowered to 17 percent.
April 17	U.S. Treasury Secretary Regan announces policy of not intervening regularly in the foreign exchange markets.
April 30	IMF terminates reconstitution requirement on SDR.
May 1	IMF increases interest rate on SDR from 80 to 100 percent of average of short-term interest rates in five largest countries.
May 20	U.S. prime rate reaches 20.5 percent.
August	Dollar, after appreciating for a year, reaches a peak against most other currencies.
September 15	U.S. prime rate reduced in first of a series of steps.
October 4	In an EMS realignment, mark and guilder are revalued by 5.5 percent and French franc and lira are devalued by 3 percent.
October 29	OPEC agrees on a Saudi price of $34 per barrel and a maximum of $38 for other countries.
November 4	Hungary applies for membership in IMF.
November 10	Poland applies for membership in IMF.

APPENDIX E

Discussions with the International Monetary Fund commenced in November, 1976 but owing to the imminence of the General Election no final decisions were taken at that time.

In April of this year negotiations were re-opened by preliminary talks in Washington. This was followed by missions from the IMF which conducted further discussions in Jamaica in May and June. These discussions identified substantial areas of agreement between the Government of Jamaica and the Fund staff on the economic policies that needed to be pursued in order to remedy our critical balance of payments situation and to enable a satisfactory rate of economic growth to be achieved and maintained. There remained, however, certain critical areas of disagreement in relation to important aspects of fiscal and monetary policy and in relation to the timing of the remedial measures that had to be undertaken.

It was accordingly decided to meet with the Managing Director of the Fund in Washington with a view to seeing if these differences could be resolved. Accordingly, a delegation consisting of myself, Senator the Hon. Richard Fletcher, Minister of State in the Ministry of Finance, and the Honourable G. Arthur Brown, Governor of the Bank of Jamaica, visited Washington during the last week of June. As a result of our meeting with the Managing Director and further discussions with the Fund staff in Washington, there was a satisfactory resolution of the outstanding problems, and an understanding reached with the management on proposals for a Stand-by Arrangement which would be submitted to the Board of the IMF. The main features of this understanding are as follows:

> Jamaica will have the right to purchase (i.e. borrow) from the Fund foreign exchange equivalent to approximately US$74.6 million. These proceeds represent 3 1/3 enlarged credit tranches. The purchase would be phased over a period ending June 1979, the phasing being such that 2 enlarged credit tranches or approximately US$44.8 million would be made within the financial year ending

31st March 1978. The first of these tranches or approximately US$22.4 million would be made available on approval by the Fund Board of the stand-by arrangement. This approval is expected by the middle of August 1977. The second tranche would be available in two equal parts in December 1977 and March 1978. There are no conditions attached to the drawing of the first tranche but the drawings in December and subsequently will be subject to the broad condition that the comprehensive programme of economic stabilization and reconstruction which the Government has adopted and which has been approved by the fund, must be strictly carried out.

The Programme

The Programme covers the areas of incomes policy, fiscal policy, balance of payments, exchange control and exchange rate policy.

1. Incomes Policy

The aim of the incomes policy is to ensure that money incomes do not race ahead of real production in such a way as to result in an inflationary spiral that will not only cause severe hardship on those least able to bear it but also destroy the possibility of the required growth in export earnings. The details of this policy are set out in a separate Ministry Paper.

2. Fiscal Policy

The aim of this programme is to restrict the use of money creation in financing the budget to such amounts as will not spark inflation or create further pressures on the balance of payments. In order to achieve this objective it has been agreed that accommodation from the Banking system (including the Bank of Jamaica) will not exceed by more than $45 million the amount of foreign loans obtained for balance or payments support. It has been further agreed that there should be limits on total foreign loans with a special limit on loans with a maturity of one to five years which should be restricted to a maximum of $75 million for this financial year. The purpose of this latter restriction is to ensure that our debt burden is kept within manageable limits in succeeding years. With these parameters we anticipate that we will be able to finance a budget of approximately $1.2 billion this year. In order to achieve this target without dislocation of major programmes the most careful control and monitoring of public expenditure will be required so as to eliminate all traces of waste and non-essential expenditure in the public sector. It is expected that adherence to this programme will enable the Government to maintain its essential social programmes including the elements of the Production Plan which are dependent on the Budget and carry on their normal Government activity without inflationary side effects.

3. The third area dealt with in the programme is monetary policy and the balance of payments. It is expected that by following the incomes policy and fiscal programme above that transactions involving foreign payments and receipts, when the inflow of foreign borrowing are taken into account, will result in an improvement in the net reserves of J$30 million by 31st March 1978, i.e. increasing net reserves from J$154 million at 31st March 1977 to J$124 million at 31st March 1973. We expect also if all these assumptions hold to be able to meet the expanded import target of approximately J$800 million at the Basic Rate.

4. The fourth area of the programme deals with exchange control restrictions and exchange rate policy.

   (a) The Government will, as in the past, make full provision for the payment of the interest and debt service charges due on its own foreign debt and on any guaranteed debt. Foreign exchange will be available for all other Government foreign payments. Throughout this entire period of stringency, the Government has on no occasion missed a payment due on any of its own obligations by even one day.

   (b) Foreign exchange will be provided on a current basis to meet payments due for imports on the basis of the payment schedule set out in the imports licence.

   (c) As regards service payments in the Private Sector, i.e. current payments other than for imports, it is intended that payments such as interest will within a reasonable period be put on a current basis. There will be a change however in the method of dealing with payments such as royalties, trade marks, commissions, fees, management expenses, insurances, etc. In the past, these matters have been regarded essentially as Exchange Control problems with the criteria established for payment being related strictly being taken to have these payments examined by a broadly based group from a wider perspective, taking into account the country's overall economic and social interests. Justification for the payment of royalty e.g. would be examined as to whether or not the particular process is relevant to the requirements of Jamaica or whether there is not some local substitute for the process. Once a decision has been taken to approve a payment under any of these headings, the amount due would be put on a current basis for remittance abroad.

(d) Applications for foreign exchange which meet all the criteria under the existing guidelines will be so dealt with that any backlog of payments would be cleared by 31st December 1977.

(e) Arrears which have been accumulated in respect of interest payments and other service payments which are bona fide and not disguised capital transfers will be eliminated by 30th June 1978.

(f) As regards non-business payments such as holiday travel, migrants incomes, etc. it is not possible to make any statement at this time, but it is intended to review the matter by May 1978 in the light of the then existing Balance of Payments position.

(g) As regards payments of principal due on private business debt, it is not possible at this stage to give any specific schedule or timetable. Applications will be dealt with on an <u>ad hoc</u> basis depending on the availability of foreign exchange from time to time. A full review will be made of the position by May 1978.

As will be seen from the above, even though the Government cannot liberalise all payments, it does not intend to intensify the existing restrictions nor to introduce new restrictions on current payments.

(h) The Government intends to keep its exchange rate policy under continuous review since this is an important instrument in enabling us to meet our balance of payments targets.

5. The Government will undertake a first review in October of this year to determine whether the Budget and other forecasts are on stream.

There will be a further major review in March 1978 by which time it is expected that the Government's 5-year plan would be available. The intention then would be to determine in conjunction with the Budget for 1978/1979 what will be the specific policies for the fiscal, balance of payments, and monetary sectors for the ensuing year.

It would then be determined whether we would proceed to utilise the remaining one and one-third enlarged credit tranches for 1978 or whether we would seek to work out with the Fund a new agreement for the use of the Extended Fund Facility. The Extended Fund Facility involves an Agreement with the Fund on a 3-year programme and would provide further access to Fund resources during that period.

6. It is important to stress that the programme presented by the Government to the Fund is merely one aspect of an economic programme which the Government itself has to institute and whether or not there were discussions with the Fund, Government would have had to establish a programme which would ensure viability both in its domestic operations and in its foreign operations.

One of the important advantages which derives from an endorsement by the Fund of the Government's economic programme is the willingness of foreign Governments, international institutions and private financial institutions to accept this endorsement as an indication that the country is pursuing a path which would justify these institutions in making assistance and credits available.

It is expected therefore that immediately following the conclusion of the Fund agreement there will be several areas of bilateral, multilateral and private resources which will be available to Jamaica. These will be announced from time to time when they become available but our preliminary estimates for this financial year, including Fund Resources, totals approximately $190 million. This does not include institutional loans such as from the World Bank already spoken for and in the Budget.

DAVID COORE
Deputy Prime Minister and
Minister of Finance

File No. 406/02

APPENDIX F

THE INTERNATIONAL MONETARY FUND:
A STRATEGY FOR DEVELOPMENT:
A CASE STUDY OF JAMAICA
1972 - 1980

1. How would you define development?

1a. Dudley Seers defines development as "..." In what ways do you agree or disagree with this?

1b. Would you use his definition as a working framework for Jamaica?

1c. Has the Manley Government effectively changed any of the above parameters?

2. What were the major factors that caused a deviation from or failure to achieve these plans?

3. What should be the Government's role in development?

4. Do you advocate a free market system, a planned system, or some combination of the two?

5. In what area is Jamaica weakest in the above?

6. What were its areas of strength?

7. To what extent has the country's development corresponded with its development plan?

8. Is the tax structure geared to help development? Explain your answer. Which segment of the population should shoulder the burden of development?

9. State briefly your impressions of the IMF as a viable arm for development.

10. How effective is the IMF in helping developing countries?

11. From what you know, has the IMF structure made for a more effective management of the world's economy? If not, suggest a more preferable structure.

12. Do you think the IMF is politically neutral?

13. Are there any changes you would make in the IMF?

14. Is there a need for the IMF to become more representative?

15. Is the issuance of Special Drawing Rights a step in the right direction to solve the world's liquidity reserves problems? Comment on its likely impact.

16. Do you believe OPEC has adopted the proper strategy in demanding a more realistic pricing for their oil?

17. Would you characterize the 1980 elections as IMF influence?

18. Did the IMF act fairly in not granting waivers toward Jamaica in light of natural disasters (1979)?

19. Are the new IMF arrangements to the benefit of Jamaica? Explain.